EIR

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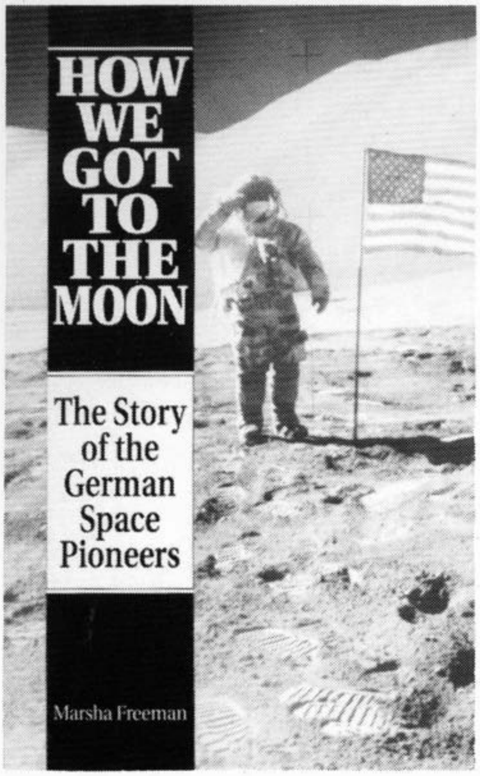
Farrakhan urges lawsuit to release FBI files
LaRouche envoys: Orange County no local ill
Italy becomes test tube for 'Asiatic model'

Mexican debt bomb has exploded



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EIR

From the Editor

The cover *Feature* presents selected excerpts in English, of a Multi-Client Special Report which this news service has rushed into print in the Spanish language, on the crisis triggered by the Mexican peso devaluation. In the few short weeks since the peso was allowed to float against the dollar by a badly deluded President Ernesto Zedillo, it has become evident to any but the most psychotic monetarist that there is no "Mexico crisis" per se, but rather, the unraveling of the world financial system is taking place before our very eyes.

If you were listening to some of the self-serving market authorities such as the Wall Street firm Bear Stearns, one of whose in-house economists bragged in October 1993 in *Forbes* magazine that "nothing can stop Mexico's economic modernization," you've been played for the greedy fool like a character out of Chaucer or Boccaccio. If instead, you have been paying attention to *EIR*, you have known since at least April 1993 that the Mexican government would sooner or later be forced to devalue the peso and thus "deflate the international myth of the 'Mexican model,' and bring the country's foreign debt crisis back to center stage."

Bear Stearns has been promoting childish fantasies, while *EIR* has consistently been in touch with the global reality.

A further example suffices to underline the point. The need to provide rapid, large-scale relief in the wake of the terrible catastrophe of the earthquake that has just hit Japan, with a death toll estimated at this time of writing above 4,000 souls, is a major humanitarian issue. Yet it also being widely perceived as a potential trigger for an explosion of the monetary system. This shows how very sick the world monetary system is at present.

In a healthy system, the mobilization to finance the treatment of a catastrophe does not cause a financial crisis. Indeed, any time a country is forced to take wealth out of speculative financial areas and put it into rebuilding capital investment—such as replacing destroyed, old property with new property, building improved highways and better rail systems, bringing new technology into play, and building up the institutional capability to do that—this will always tend to have a positive effect on the world economy.

Nora Hamerman

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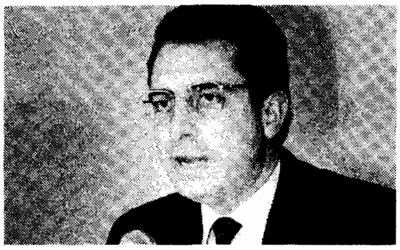
Volume 22, Number 5, January 27, 1995

Feature



Mexican President Ernesto Zedillo. He was handed a bankrupt financial system by the outgoing Salinas government, and is now scrambling to carry out the orders of the Wall Street and London bankers.

International

National

EIR Economics

Credit guarantees won't stop global financial mudslide

by Chris White

The immediate run against the Mexican peso was brought to an apparent, temporary, shuddering halt on Friday, Jan. 13, when the Clinton administration and the Federal Reserve Board announced that the United States would provide credit guarantees, subsequently revealed to be in an amount of up to $40 billion, to do just that. This second package was required because the first $18 billion, from all sources, had not been sufficient to turn the tide against the predators already gathering over the carcass of the Mexican credit system.

Such a stabilization package, designed to burn out the speculators, ought to have been on the agenda of any American President, and was properly the subject of bipartisan agreement between President Clinton's administration and the Republican leadership of the House and Senate.

But no one should kid themselves. No stabilization package, no matter if 10 times $40 billion, or 100 times $40 billion, no matter how much oil, or revenues from oil, is presumed to back it up, is, on its own, going to stem the slide. Nor is it going to put food on the tables of those who need it. Nor, given the gathering instabilities worldwide, and the outbreak of cultish infantilism in Washington, led by refried wind-bags like Sen. Phil Gramm (R-Tex.), is there any guarantee that the $40 billion will be any more than a very brief holding action.

It can be assumed that action was taken when it was, even if three weeks after the Mexican crisis first erupted, because various people, in various positions, began to grasp the idea, under the pressure of unfolding events, and the failure of the usual countermeasures, that yes, a systemic threat to the world financial system did in fact exist, that action not taken would have jeopardized everything.

This, despite all the nonsense from those who insist that nothing of the sort is going on, just some "asset reallocation," out of the so-called emerging markets, and into "safe havens" for investment. They're nuts, whether they work at Goldman Sachs, or in the City of London.

The financial system is the threat

But those who put together the $40 billion package have got it wrong, too. There is no systemic threat to the financial system. The financial system, so-called, is the threat. Not the Mexican financial system, but the whole darn thing.

You can't stop a global mud-slide by throwing mud-balls into it. The $40 billion might be a lot of mud-ball, but it's still a mud-ball.

Number one, it's not a Mexican crisis. Number two, the editors of London's *Financial Times* to the contrary, they wrote ludicrously, on the same Jan. 14, of "isolated separate bouts of instability," to wit, simultaneous crises in Argentina, Brazil, Hongkong, Thailand, Malaysia, China, Russia, Spain, Italy, Sweden, and Canada. Not to insult any country left out, none of these are sufficient unto themselves, arbitrary eruptions in some inchoate void, but part of the same process of global financial breakdown that engulfed Mexico in the days before Christmas.

It all makes those who are opposing the stability package look pretty stupid. There are those who opposed the North American Free Trade Agreement, two years ago, but didn't fight effectively for fear of what would happen to the financial system. Now, the financial system is coming down, they want NAFTA repealed—as if that would accomplish anything. There's Ross Perot, back with his sucking sound, demanding the takeover of Mexico's oil. There are others, like Kemper's David Hale, proposing the establishment of a British Empire-modelled "currency board," to put Mexico effectively out of independent existence. There's the second-childhood crew from the geriatric ward, like Sen. Jesse Helms (R-N.C.), who want the whole tied to the immigration question. And there's Gramm, so far out, he might be using cast-off NASA boosters for his presidential campaign: "I would like a helluva lot less risk than we're talking about." What does he want? The certainty, and the misery of a global breakdown, now?

This global breakdown process was the subject of Lyndon LaRouche's Ninth Forecast, "The Coming Disintegration of the Financial Markets," now circulating nationwide in a publisher's run of 100,000 copies. The $40 billion "stability package" may delay, but certainly won't stop, never mind reverse, the process that is even now under way, worldwide. This for the very reasons that brought about the crisis in the first place.

LaRouche's Ninth Forecast proves why the disintegration of the present monetary and financial system will occur, at some point, probably over the coming two years. He shows that it is impossible to tell when precisely that eventuality might occur. That it might be delayed. But occur it will, and must, failing political action to put the present degenerate arrangements through top-down international bankruptcy reorganization.

It is a quality of proof that those who delude themselves that they are protecting the "system" from some threat would do well to take on board.

Creativity is the source of wealth

Economy and monetary systems are not directly correlated in the way the professional idiots assume. Human creativity is the sole source of wealth, developing the technology which permits more people to live better lives through increases in productivity.

Assign a financial value to an asset, on the basis of a price-earnings multiple, without regard to the economic replacement cost of that asset, or even whether it could have a replacement cost (nowadays intangible assets, and assets which derive their "value" from some other asset have equal claim to loot with old-fashioned real assets), extract the income claimed by that asset, in the way a New York slumlord would extract the rent from his tenants, capitalize the income stream thus looted compounded with the existing asset. The result is a financial bubble. Loot populations, and economic capacity to sustain the price-earnings multiples on the arbitrary, and economically fictitious assets, relative to their replacement costs. The result is inevitably bankruptcy and collapse. What's left open to question, is the rate at which that bankruptcy and collapse occur.

The better the bubble process appears to sustain itself, the worse the results will inevitably be, for the bubble is only perpetuated, like a cancer, by consuming the healthy, wealth-producing tissue of the human economy.

The misnamed "Mexican" crisis blew up in the first place because Mexico, looted to the bone, and bankrupted, could not continue to service its debts. Now, a 40% currency devaluation later, Mexico's foreign debt is that much larger in dollar terms, and swollen further by the obligations that may yet be incurred under the name of the two successive stability packages.

If Mexico could not service approximately $150 billion of debt on the eve of Christmas, why should it be any better able to service $230 billion, and more, just two weeks into the New Year? If the United States went beyond loan guarantees, and assumed some or all of the debts, that would really change nothing either.

Canada, Sweden, Italy, and Spain, to name but four countries, each indebted comparably to Mexico, are in no different situation. Each faces a tumbling currency, and demands that public expenditures be drastically curtailed to free up revenues for debt service. Each is in the process of putting together a state budget designed to comply with the price-earnings multiple calculations of the country's international creditors. Each will attempt to do this by enforcing austerity measures against the aged and the employed, the young and the sick, which are guaranteed to make the deficit and debt problem they claim to address, worse.

Russia, too, is in a similar plight. There the ruble has fallen below 4,000 to the dollar, lower even than it was on that Black Tuesday last October, while deficit-busting budgets are concocted. But, so too is Russia in the same bankrupt shape.

Are they all going to qualify, in their turn, for upcoming $40 billion loan guarantee packages? Or do we learn that the "system" did actually die, and killed off the "liberal" market reforms which Mexico and Russia both are supposed to exemplify?

What the package does

What does the stability package do? At best, it may buy some time, stretching out the maturities on debt falling due, and guaranteeing, inevitably in the not too distant future, since maturing debt and interest are added onto the preexisting mass of unpayable debt, to create a bigger mass, demanding more payment, and thus a future bigger crisis. And, where will that bigger crisis hit? Well, who are the creditors who are being underwritten by the U.S. loan guarantees? You did not think they were Mexican, did you? It is the usual crew: Citibank, Fidelity Investments—one of the larger purchasers of Mexico's dollar-pegged, short-term government debt, over the past year.

We are merely lining up a bigger crisis, with an expanded U.S.-based explosive charge, as long as the operative presumption is that which underlay the development of the $40 billion stability package. There is no threat to the financial system from which it can be saved. The financial system is bankrupt. It is dead. It ought to be given a proper burial. After the stability package there's got to be a reorganization which puts the speculators out of business, and assumes that we stop the worldwide stealing in the name of preserving a bankrupt monetary system, and start to put people back to work.

Mexico shock waves hit European currencies

by William Engdahl

Following on the heels of the collapse of the Mexican peso in the first days of January, shock waves from the Mexico crisis crashed over what had been almost eight months of currency stability in Europe. Immediately, the three most debt-laden countries of the 15-nation European Union became the targets of a massive foreign selloff, plunging the Spanish peseta, the Italian lira, and the Swedish kroner to new lows against the strong German mark.

In Spain, concern over political stability coupled with growing nervousness from international fund managers after the 40% collapse of the Mexican peso early in January, brought the Spanish peseta to within a hair of its allowable limit under the rules of the European Rate Mechanism (ERM), the mutual support pact among 12 of the 15 European Union (EU) countries to support one another's currencies should they fall below or rise above 15% of the current median. It marks the most severe test of the ERM since August 1993 when the EU central bank governors and finance ministers voted to widen the bands to 15% from earlier tight levels of 2.5%, and thereby took away the speculative target from hot money funds such as George Soros's Quantum Fund.

Italy's lira nearly went into a free-fall in the first days of January, fueling the political chaos which forced the government of Silvio Berlusconi to resign on Dec. 22, 1994, leaving the political future of the country in doubt. The lira has fallen 6% against the deutschemark since mid-December when the government was forced to resign. Since the first major crisis of the lira in August 1992, shortly before Italy was forced to leave the ERM, the lira has fallen by 44%. While this makes exports of Italian machine tools and autos extremely competitive across Europe, it has had devastating effects on foreign investment needed to finance Italy's out-of-control public debt.

The Swedish kroner started a new round of collapse on Jan. 10, as the incoming Social Democrat government of Ingvar Carlsson presented its austerity budget; the proposed budget had a far less aggressive budget deficit reduction approach than that demanded by international financial investors. Sweden's government is heavily dependent on foreign borrowing to finance its huge deficit. The U.S. credit-rating agency Moody's announced that it was downgrading Swedish public debt, which sent the kroner falling and Swedish interest rates rising as international investors rushed to liquidate their Swedish bonds to forestall further losses.

Prospect of state default

The sudden shift to pessimism over the economic prospects of these European countries, whose currencies have been termed by one London currency trader as "basket case currencies," is directly tied to the shock effect on the world financial climate since the Mexican crisis erupted on Dec. 20. "Overnight, fund managers in London, New York, and other centers reversed their attitude. Last year and before, they were so eager to get high interest rate returns that they flooded the world looking only at interest rate levels, ignoring country risk," noted Andrew Smith, a strategist with a leading London bank. "Since the peso crisis, suddenly 'high-yield' has been changed into the words 'high-risk' for these bank and fund managers. The watchword is caution, retreat into quality, safe havens like the German mark, the Japanese yen, or the U.S. dollar."

In 1994 alone, according to data compiled by the Washington Institute for International Finance, fully $170 billion of capital flowed out of the industrial countries, mainly the United States, and into so-called "emerging markets" or places with high yields such as Sweden, Italy, and Spain. As that money is being pulled out, made possible by the global financial deregulation of the past decade which forbids nations from defending their currency by imposing controls on exchange, the currencies are falling in the wake.

The 'debt-trap'

But an entirely new focus of concern is beginning to emerge about the situation in major industrial countries like Sweden. Those countries, as is the case of Canada in North America, had allowed their national debt to build to staggering levels during the oil and interest rate shocks of the 1970s and up to the present. The consequence is a level of national expenditure merely for interest rate servicing of the public debt which is larger than any other budget item.

Calculations are being made frantically in banks and investment firms in New York, London, and elsewhere to evaluate each country and its debt risk. For Italy and a handful of industrial countries, the ratio of public debt to overall economic output has grown so large that almost all national savings are consumed for debt, leaving little room for investment in the real economy. Economists refer to the situation as a "debt-trap," that is, when a nation's ratio of debt to Gross Domestic Product is so high that non-debt-related government spending cannot be cut enough to cover rising costs of interest on that debt.

Italy today has a level of public debt equal to 112% of its annual GDP, a total of $1.2 trillion, far the largest in all Europe and approaching the $4.4 trillion level of U.S. debt.

But even more dangerous, like Mexico in recent months, the Italian government has been forced more and more to resort to short-term debt to finance its huge annual deficits. In January alone, Italy must refinance some $60 billion in such short-term debt. With the value of the lira falling amid political instability, the danger is that any added Banca d'Italia (central bank) interest rate rises to stabilize the lira would send the costs of interest on the debt spiralling out of control. Already, the government must budget $100 billion annually for debt service.

Not surprisingly, international financial firms such as Barclays and S. G. Warburg in London, and Salomon Brothers in the United States, are demanding that Italy's government impose draconian budget reduction and radically reduce its annual $50 billion deficit in public pension funding, as a precondition for any more foreign investment into Italian government bonds. The new government of Lamberto Dini, assuming it even gets approved by parliament, faces demands to impose an added $42 billion in budget cuts within the next several months, or face what some financial analysts warn could be a state default, à la Mexico in August 1982.

Risks outweigh the rewards

In Sweden, where since 1990 the economy has been deep in the worst depression since the 1930s, the budget deficit has ballooned under the combined costs of state bailout of the bankrupt banking system and the soaring state costs of unemployment insurance. Fully 13% of the workforce is unemployed, up from only 2% in 1988. This year the total Swedish state debt will exceed 90% of GDP, some $175 billion, and the estimated budget deficit will be SKr 189 billion ($29 billion). With such an exploding debt burden, the government has been forced to pay 11% or more to sell its bonds to international investors, further adding to the soaring budget deficit.

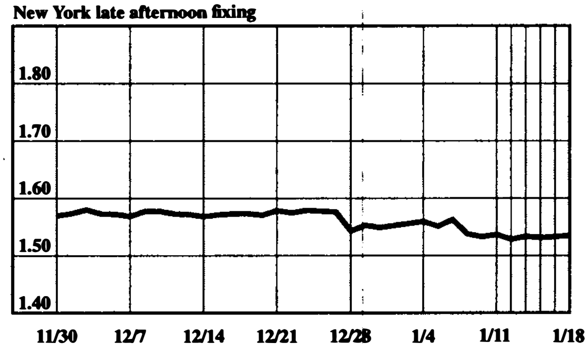
Last August, just days before national elections, Skandia, the country's largest insurance company and a major buyer of bonds, announced it would buy no more Swedish bonds until it was convinced that any new government was going to take draconian steps to cut the deficit. Since the 1970s, Sweden's traditional industrial economy has shrunk, while unemployment was absorbed into a huge public service sector. Today Sweden's public sector is 70% of GDP.

Spain is only slightly less grim in fundamentals, but there is a political crisis in the 12-year reign of Socialist Prime Minister Felipe González. Spain today has a public debt equal to 42% of GDP, but after the Mexico crisis, foreign investors began to liquidate their Spanish bonds, forcing interest rates up to 12%, a rise of 4% since January 1994. Reports from European bankers are that, amid a wave of political scandals which could topple the González government, nervous U.S. and British fund managers have decided that the risks of investing in Spanish debt outweigh the rewards.

Currency Rates

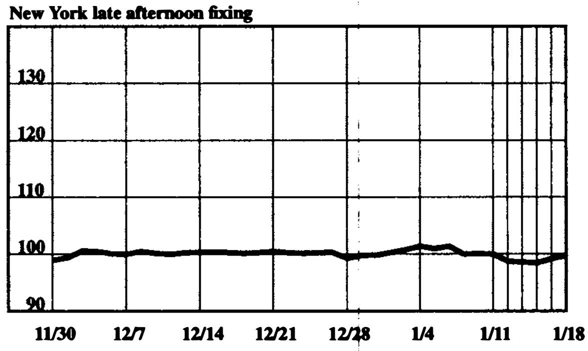
The dollar in deutschemarks

New York late afternoon fixing



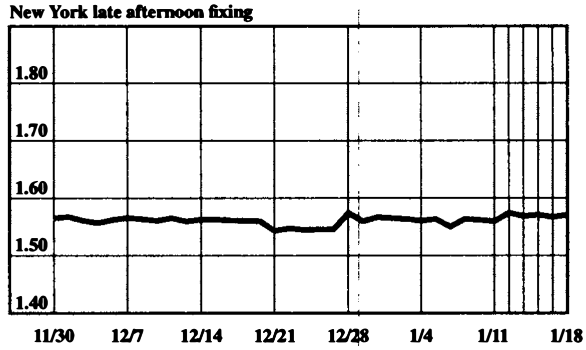
The dollar in yen

New York late afternoon fixing



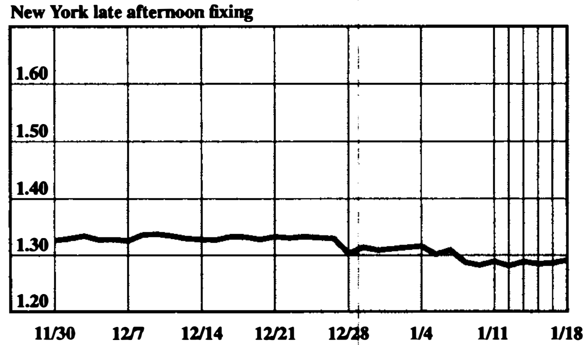
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



LaRouche associates intervene in California financial crisis

LaRouche associates administered a healthy dose of reality to the Jan. 17 hearings held by the California Senate Special Committee on Local Government, on the $2 billion derivatives debacle in Orange County. Prior to the hearings, *EIR* Houston Bureau chief Harley Schlanger had circulated to members of several California state House and Senate committees, a memo written by *EIR* economics correspondent John Hoefle. That memo, reprinted below, stated that the massive losses incurred by Orange County were part of an ongoing collapse of the global derivatives bubble, and that any attempt to deal with the crisis in Orange County without dealing with that global economic collapse, would be futile.

That point was further emphasized during the hearing itself, by LaRouche associate Andrea Ingraham. "I represent *Executive Intelligence Review,* the newsweekly founded by Lyndon LaRouche, the only competent economist in the world today," she began. "The crisis in Orange County is not merely the result of bad judgment by county officials, but is a reflection of the disintegration of the entire world monetary system. Look at Mexico," she continued, and proceeded to elaborate on the crisis and what the alternative is.

After about two minutes the chairman cut her off with "Can you speed this up? We can read about it in this written testimony you've submitted," the chairman exclaimed, waving a copy of Hoefle's memo in the air. "Is there one final thing you'd like to add?"

"Only to say that you will not solve this problem by seeing it as a local problem; we have to nationalize the Federal Reserve System, and go back to national banking . . ."

"That's too big for us, we're a state government," the chairman responded.

"Well, that's the only way it can be solved," Ingraham replied. "A global depression can't be reversed on a local level."

Meanwhile, back in Orange County, the residents continue to suffer. The heavy rains which pounded southern California in early January, caused widespread flooding and several deaths, and exposed the deadly inadequacy of the county's infrastructure.

The storm "overtaxed the storm drains and flood control channels," admitted county flood control manager Herb Nakasone, who advised residents to stockpile sandbags and buy flood insurance, since no money was available to fix the drainage system.

Text of the memo by John Hoefle to the California House and Senate

> The presently existing global financial and monetary system will disintegrate during the near term. The collapse might occur this spring, or summer, or next autumn; it could come next year; it will almost certainly occur during President William Clinton's first term in office; it will occur soon. That collapse into disintegration is inevitable, because it could not be stopped now by anything but the politically improbable decision by leading governments to put the relevant financial and monetary institutions into bankruptcy reorganization.
>
> —Lyndon H. LaRouche, April 1994

Ladies and Gentlemen:

The crisis which has unfolded in Orange County is not merely the result of bad judgment or other errors by county officials, but is rather a reflection of the ongoing disintegration of the entire global financial system. To view this as some sort of localized phenomenon which can be dealt with through ordinary legislative and judicial methods, is to miss the forest for the trees. The present currency and debt crisis unfolding in Mexico, for example, is part of this same process.

Whatever personal errors may have been committed by Orange County officials are largely irrelevant to the matter at hand. Punishing these officials will neither bring the money back, nor prevent other California counties from losing money. Changing the investment rules will neither bring the money back nor prevent future losses. Passing rules against the disintegration of the financial system is folly, as is dealing merely with the symptoms.

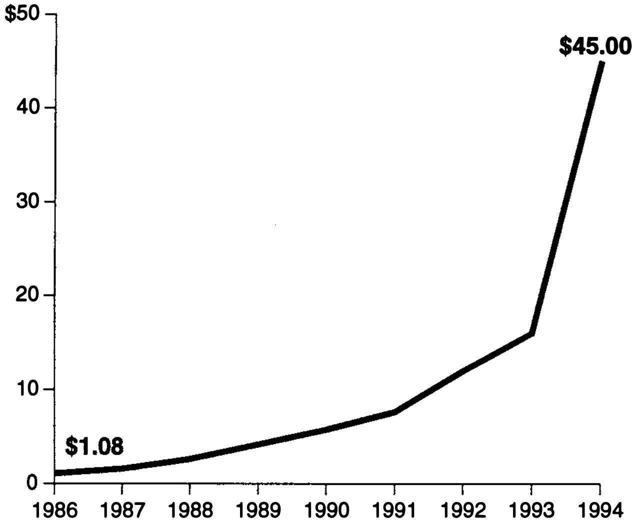
The question before this body is: How do we deal with the financial disintegration which is in progress, in such a way that we can minimize the destruction of the lives and welfare of the population?

Only two choices

There are in reality only two choices.

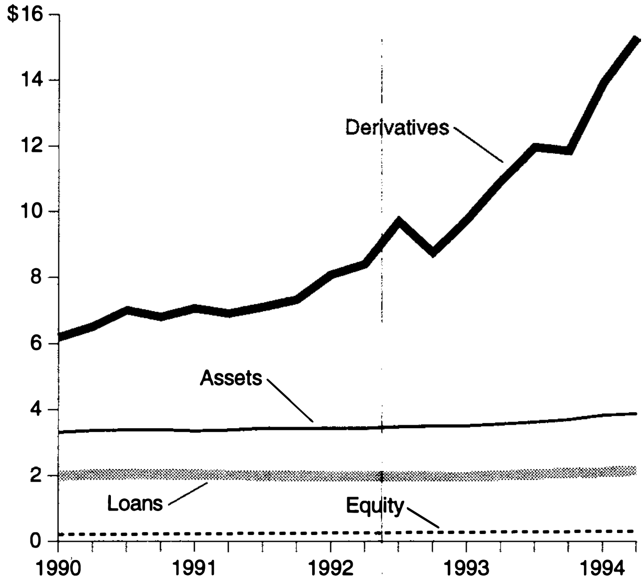
The first is to put the world's financial system through the equivalent of a Chapter 11 bankruptcy proceeding, in which the unpayable debts are written off, and attention

FIGURE 1
World growth of derivatives
(trillions $)



Sources: Bank for International Settlements, Swaps Monitor, EIR.

FIGURE 2
Derivatives dominate U.S. banking system
(trillions $)



Source: FDIC.

turned to rebuilding our tattered infrastructure to provide the basis for economic recovery.

The second is to fail to implement such essential changes, whereupon we watch the unfolding chain reaction collapse of the global financial bubble, which, once triggered, will occur with breathtaking speed, thanks to reverse leverage.

There is no middle ground. Either we reorganize the system to minimize the losses—and make no mistake: the losses are already of enormous proportions, and are growing geometrically—or we sit back and watch the whole system collapse into uncontrollable chaos and a depression far worse than the 1930s.

You will no doubt hear a lot from the so-called experts about "paper losses," losses which the experts insist become real only if people panic and pull out their funds. The truth, as Orange County has so painfully demonstrated, is that the losses are real, affecting schools, municipal services, transportation, and other aspects of the infrastructure upon which civilization depends. The losses are painfully real. It is the profits which exist only on paper, as claims to pieces of a speculative bubble which is in the process of disintegration.

Paper profits

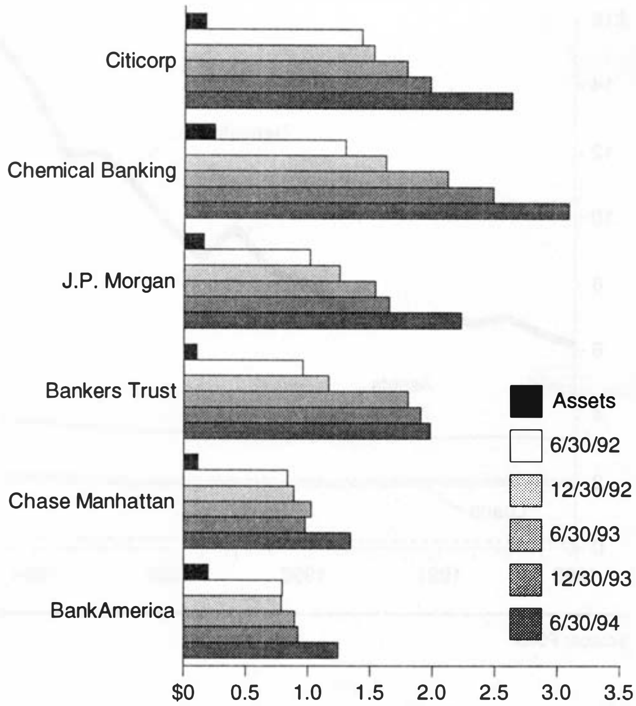
When the Orange County crisis first broke, Mr. Citron attempted to portray the losses as mere "paper losses," a temporary drop in the value of a portfolio, caused by the normal fluctuation of financial markets. Since then, officials of other governments in California and elsewhere have repeated that unfortunate phrase. "If everyone will just stay calm and leave their monies in these funds," the officials claim, "we can hold these securities until their maturities, and all will be well."

Nothing could be further from the truth.

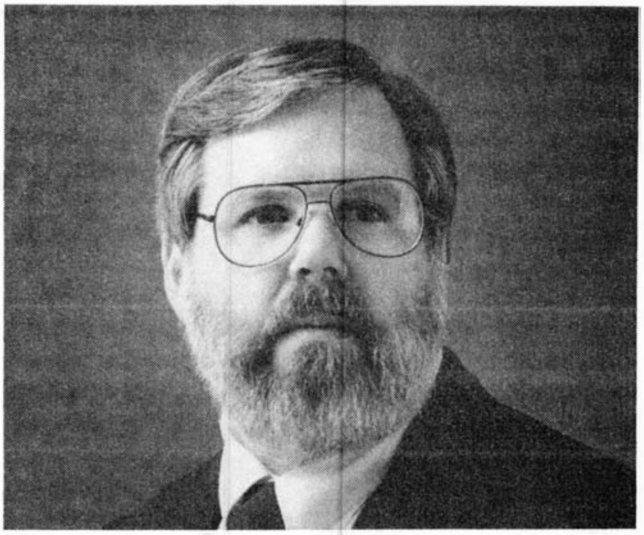
The U.S. financial system is dominated by an enormous speculative bubble, which grew rapidly in the 1980s and has grown even more rapidly since. This bubble has gone through several phases, including the collapse of the stock, real estate, junk bond, and Less Developed Country debt markets of the late 1980s, which bankrupted the U.S. banking system. To keep the banks afloat, the Federal Reserve rapidly lowered interest rates, which allowed the banks to feed off the increased differential between what they paid for money, and what they charged for money. The Fed also encouraged banks to rush into currency trading, interest-rate speculation, and other sorts of gambling, called derivatives in polite company. That is, the derivatives bubble was created to cover the collapse of the stock, real estate, junk bond, and LDC debt bubbles. Its growth was fueled by the deregulation of the commodities market, by former Commodities Futures Trading Commission Chairman Wendy Gramm, beginning in 1989.

This derivatives bubble has grown with breathtaking speed (it will collapse even faster). **Figure 1** shows the growth of derivatives worldwide over the last eight years, while **Figure 2** shows the growth of derivatives held by U.S. banks since 1990. The U.S. totals are held by a handful of banks, whose derivatives exposures dwarf the assets they declare on their balance sheets, as **Figure 3** shows. Note that these figures are snapshots, showing the notional principal

FIGURE 3
Major U.S. banks and derivatives
(trillions $)



Sources: U.S. Office of the Comptroller, Salomon Brothers, EIR.



"Economics is not about money. Economics is about what people need to survive and grow," economist John Hoefle, shown here, told legislators in testimony submitted to the California House and Senate.

values of derivatives at the ends of years or quarters. The turnover on these instruments during the year, is perhaps 200 times the notional values.

The alleged profits from this derivatives bubble are "paper profits," similar to the profits declared by the slumlord who pads his bank account by letting his building decay, and pocketing as profit the money which should go into maintaining and improving the building. Such profits are illusory, because they come from asset-stripping, the deterioration of the physical assets upon which the income is based. Sooner or later, that building will become unlivable.

The derivatives bubble works much the same way, substituting the physical economy for the slum building in the analogy. Money that should be reinvested in necessary infrastructure projects is instead pumped into the bubble, asset-stripping the economy as a whole. Thus the physical economy, which generates the income streams upon which the bubble subsists, is collapsing, making the collapse of the bubble itself inevitable.

Real losses

The Orange County losses are but the latest in a string of huge losses which began in early 1994, when the Federal Reserve shifted from a policy of pumping up the bubble to bail out the banking system, to a policy of attempting to bring the bubble itself under some sort of control. The Fed instituted a series of interest rate hikes which caused massive losses among the hedge funds, mutual funds, institutional investors, investment banks, commercial banks, pension funds, municipal governments, and others, who had placed bets that interest rates would continue to drop, or at least fall no further. These gamblers—"investors" is not the appropriate term for this activity—bet their own money, and that of their clients, customers, and citizens, that interest rates would drop, and they lost their bets. Some of this was clearly illegal, as the Bankers Trust case shows, and some of this was technically legal, but it was, and is, stupid and immoral. It is bad enough when one takes one's own money to the casino, and inexcusable when one takes money entrusted to one by others to the casino.

Whatever else Mr. Citron and his colleagues in Orange County and elsewhere may have done, they should have stayed out of the casino. That they were not alone, that everybody else does it, is true, and is precisely the problem facing this body. This casino must be shut down, through forced bankruptcy.

Orange County has joined the growing list of gamblers who have lost over $1 billion through speculation. That list includes Bank Negara of Malaysia, Kidder Peabody, the World Bank, Ferruzzi, Kashima Oil, Metallgesellschaft, and now Orange County, with even more victims soon to appear. The list of those who have lost money in derivatives runs for pages, with some $28 billion in losses reported between 1987 and 1994.

Pop goes the bubble

What has kept the bubble intact so far, is a combination of massive government aid, fraudulent bookkeeping, regulatory protection, and the political power of the financial markets to keep everyone in line. As long as everyone could count their paper profits, that protection racket worked—but with the losses piling up, the consensus is breaking down. When confined to the financial markets, these billion-dollar losses could be covered up or explained away, with soothing statements and technical babble from legions of so-called experts. The losses were real, but the spin-doctors were able to keep the magnitude of the crisis confined to insiders and those able to read between the lines of the financial pages.

Unfortunately for these speculators, reality has a way of intervening, and it is, with a vengeance. As the losses spread to municipalities and the pockets of their residents, citizens who were content to ignore the problem are now demanding answers, creating a political shock wave which will destroy the controlled "everything's okay" environment. At the same time, the losses are speading like wildfire, breaking out in U.S. investments in Mexico, Argentina, and other so-called emerging markets. The Ibero-American debt crisis, which the banks claimed to have solved years ago, is back, and worse than before, as shown by recent events in Mexico.

Even if the financial system manages to survive the current outbreak, it must ultimately collapse, and everything which is done to postpone that collapse, only serves to make the eventual collapse worse.

The rapid growth of debt, is the trick by which the collapse of the system is being postponed. Because this debt cannot be repaid, it is rolled over when due, creating the illusion of solvency while increasing the debt. These debts have grown far beyond the capacity of the economy to repay them. By the end of 1993, the total U.S. credit market debt outstanding stood at $15 trillion, and is growing at a rate of half a trillion dollars or more every year, while the ability of the economy to service that debt shrinks.

The debt has grown so large and the economy has fallen so far that, according to an *EIR* study published in August 1994, some $2.50 is now lost for every dollar that is invested in the economy, while $3 in debt service is demanded for every dollar of paper profits generated, relative to 1967 (**Figure 4**).

The faster the bubble grows, the more surely it, and we who must live in the economy which it is destroying, is doomed.

Time for action

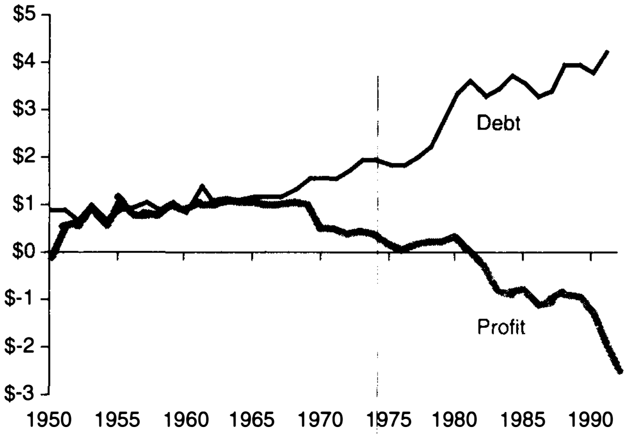
This crisis will not go away. Either we put an end to the speculative casino by putting it through the equivalent of Chapter 11 bankruptcy, or we will suffer not just a collapse, as we had in the 1930s, but a disintegration, where much of our institutional framework will simply disappear.

The financial experts will implore and cajole this body that you must let the experts handle this problem, and they will threaten you with dire consequences if you interfere. The future of the markets is at stake, they will insist, and the markets are the heart of the economy. It is the equivalent of

FIGURE 4

Debt demand per dollar of profit and loss per dollar of investment in the economy

Indexed to 1967 = $1.00



Sources: Federal Reserve Flow of Funds, Commerce Dept. Survey of Current Business

a cancer demanding that it must be allowed to thrive, in order to protect the health of the body.

Economics is not about money. Economics is about what people need to survive and grow, about what is needed to raise the standard of living over successive generations. People need jobs, education, health care, fresh water, electrical and other forms of energy, transportation, waste disposal, and such. That is what economics is all about, and the role of money and the financial system is to facilitate that process. Whenever someone insists that the financial markets are the heart of an economy, that person is confessing his incompetence, and should be dismissed as a fool.

What is required, to begin with, is the nationalization of the Federal Reserve, taking away its status as a quasi-independent corporation controlled by the bankers, and making it an institution of the U.S. government, similar to Alexander Hamilton's Bank of the United States under President George Washington. This bank could then, under constitutional powers, provide government credit to the productive sector of the economy for the rebuilding of our industrial capacity and the infrastructure necessary to support that growth.

What California needs, is economic growth. California needs infrastructure, to provide sufficient fresh water for its people, farms, and industry; to provide cheap and plentiful electrical power; and to improve its transportation grids to allow people and goods to move efficiently. California needs health care, to stop the waste of human life and potential that comes from diseases that could be eradicated. California needs to provide a Classical education to its children, to teach them *how* to think, so that they may meet the challenges of tomorrow.

This is what California needs, and the first step in meeting those needs, is to put an end to this speculative bubble, this parasite which is destroying us all.

Agriculture by Rosa Tennenbaum

EU expands—at farmers' expense

Austria's jubilation at being admitted into the European Union will soon turn to disillusionment.

The European Union, the latest form of what began as the European Common Market in the 1950s, underwent a growth spurt at the turn of the year: Austria, Finland, and Sweden are now members of the community, which stretches from Lappland to the Aegean. These are gigantic dimensions, which bring with them no less gigantic problems for the older members, but especially for the newly enrolled countries which will have to face unprecedented changes in a very short time-span, as we will show for the case of Austria.

On Jan. 2, many customers in the supermarkets of Graz or Salzburg were rubbing their eyes with bewilderment: Hundreds of articles had gotten much cheaper than just two days before, literally overnight. For example, the discount chain Billa boasted at the beginning of the year that the prices of 800 products had been slashed between 20% and 70%. Particularly drastic was the drop in the price of milk, dairy products, and flour, where some prices skidded over 50%. Flour, which used to cost 12-13 shillings, suddenly was going for 3.9 shillings. Fresh milk was now marked at under 8 shillings—much cheaper than in the other countries of Europe.

The chain stores passed these price cuts on to their suppliers. So overnight, the Austrian farmers were facing prices that no one would have thought possible before they joined the European Union. On Dec. 31, the farmers still were getting 6.20 shillings for a liter of milk, and two days later, only 4.10 shillings. Wheat prices stood in December at 421 shillings per deciton, but in January they stood at 200. The producers' prices for these two pillars of farm income were suddenly below even those paid to their fleeced colleagues in Italy, or in Bavaria, next door in Germany. Thus the entire price structure began to quake, with consequences which will only really be seen in the course of the year. For many farmers, overnight, their very existence was at risk.

Obviously the stores are fearful over their market position and are gearing up for a price war. The battle for market share is always waged at the expense of the producers. The big retail chains want to create the best possible starting position for themselves for the coming battles against the giant European stores, which are putting massive pressure on the market. Their foolish managers have thereby played into the hands of the cooperatives, which scandalously offered the chains underpricing, and thus unleashed the devastating price collapse. Such things are familiar enough in the older European Union countries.

But this is just a mild foretaste of what is going to hit Austria now, blow after blow. For example, the flour mills have been bullied into such ruinous price reductions by the stores, that it is calculated that not one of them will be open if the business year goes on this way. Many of the 274 mills which were still running at the time of Austria's entry into the EU, will soon have to cease activity.

Moreover, if they are able to exact higher rates during the coming months, the German mills will move in for the kill. Starting at 4.20 shillings, a Chamber of Commerce spokesman told the Vienna *Kurier,* the German mills, which have lost their export markets to the French, would put pressure on the Austrian markets. Thus, Austria has now been exposed to the free market's ruthless Darwinian fight for survival.

The farmers and their representatives do not want to stand idly by and watch this happen. The Austrian Farmers' Association has announced a three-step plan of action to teach manners to the dairies and the chain stores. On Jan. 7, their members at the supermarkets in all the district capitals and Graz were distributing leaflets to inform consumers about the current situation.

For the following week, step two was announced, which called for tractorcades and protest marches in all the regional capitals. And finally, in the last week of January, step three was to be activated, which is aimed at "shutting down the flow of commodities." Dairies and chain stores, "which are carrying out their price war on the backs of the farmers," must be blockaded. At the same time there will be an appeal to the agriculture minister, to call a halt to the ruinous actions of the cooperatives and cartels.

The farmers are not just defending their own interests, but those of the whole middle-level sector, which is the backbone of the economy, and, indeed, the whole country. Because if these machinations are not promptly halted, then the country will be on its way to cartelization and "vertical integration," and hundreds of thousands of jobs will be lost. We wish the Austrian farmers success in their mobilization on their nation's behalf.

On the Green Front by Rogelio A. Maduro

More lies about ozone depletion

A series of deceptions and outright lies discredits NASA, and may be the end of the line for the ozone hoaxsters.

On Dec. 19, two NASA scientists gave a press conference to announce that they had finally come up with evidence that CFCs are responsible for ozone depletion. As expected, the news media ran with the story with bold headlines. As with dozens of other such press conferences in the past eight years, the scientific evidence does not support the claims made. This time around, the "scientists" and their media dogs went too far. Such an outcry has been raised in the scientific community that the ozone hoaxsters may have reached the end of the line.

Marc Schoeberl and Anne Douglass, using data gathered by the Upper Atmospheric Research Satellite (UARS), claimed to the press from Greenbelt, Maryland that hydrogen fluoride measurements in the stratosphere "proved" that the ozone depletion theory was correct. Schoeberl stated that "the detection of stratospheric fluorine gases, which are not natural, eliminates the possibility that chlorine from volcanic eruptions or some other natural source is responsible for the ozone hole." (The hydrogen fluoride in the stratosphere is supposedly a product of the chemical breakdown of CFCs in the stratosphere.) Douglass added, "Hydrogen fluoride has no natural source; it is not produced by volcanic eruptions or salt spray."

The first deception is the claim that observations of HF in the stratosphere are new. The presence of hydrogen fluoride in the stratosphere has been known for decades. The second deception was the discovery that the levels of HF in the stratosphere are increasing. This is not news. Measurements of HF for the past 15 years have shown an increase at most measuring stations.

More serious than the deceptions were the arrogant lies. There *are* natural sources of HF and these sources put out thousands of times more fluorine than the amount of fluorine allegedly released by the hypothetical breakdown of CFCs in the stratosphere. The book *The Holes in the Ozone Scare: The Scientific Evidence That The Sky Is Not Falling* documented that volcanoes blow more than *6 million tons* of fluorine into the atmosphere every year. The amount of fluorine supposedly released by CFCs is a pitiful 2,480 tons per annum (there is no observational evidence to show that CFCs are even breaking down in the stratosphere).

That volcanoes release HF is not an obscure fact. It has been known since the turn of the century, and thousands of measurements have quantified these observations. In 1986, French scientists studying the Italian volcano Mt. Etna found that the volcano was emitting 223 tons of HF per day. Mt. Erebus in Antarctica emits similar amounts of HF into the atmosphere.

Emissions of HF from volcanoes are an important issue, because HF can, potentially, kill people and livestock. Thousands of animals and hundreds of people have died in Iceland over the past century as a result of HF poisoning (fluorosis). Volcanic fumes rich in HF are toxic. HF is also toxic to vegetation. Plants accumulate the fluorine in the extremities of their leaves, which is ultimately lethal to the plant. Animals which consume fluorine-polluted grasses eventually die. People who eat meat from these animals are also poisoned. Measurements show that HF emissions from active volcanoes can contaminate areas tens of kilometers away from the crater.

Hundreds of papers in the scientific literature document HF emissions from volcanoes and other natural sources, including evaporation of seawater. There is an excellent and easily accessible paper giving an overview of the issue, by R. Symonds, W. Rose, and M. Reed, three of the world's leading volcanologists. "Contributions of Cl- and F-bearing Gases to the Atmosphere by Volcanoes" was published in the Aug. 4, 1988 issue of *Nature.* How could Schoeberl and Douglass not know about natural sources of HF?

Since 1986, a group of inexperienced Young Turks has taken over several sections of the climate and atmospheric divisions of NASA and NOAA. Every year, the American public has been subjected to one or two press conferences at which these "scientists" claim to have found proof that CFCs are depleting the ozone layer. These press conferences, and their echo in the media, played a major role in the hasty banning of CFCs. In 1992, it was claimed that an ozone hole was just about to be formed above President Bush's summer house in Kennebunkport, Maine.

Within weeks of most of these doomsday announcements, the same scientists have had to give new press conferences, modifying their earlier statements. These retractions, if printed at all, are found in the back pages. When will the public learn? And when will the NASA leadership wake up and realize that these shenanigans will destroy the reputation of America's space agency?

Business Briefs

Infrastructure

EU prepares special Mediterranean initiative

A European Union initiative toward the Mediterranean region was addressed in a joint declaration on trans-European infrastructure projects by French Foreign Minister Alain Juppé and German Foreign Minister Klaus Kinkel, published on Jan. 12 in the German daily *Frankfurter Allgemeine Zeitung* and the Paris daily *Le Monde*. The statement stresses that "for obvious geopolitical, economic, cultural, and demographic reasons, the stability of the Mediterranean region is of immediate importance" for the EU.

Preparations under the French EU presidency for a conference in Barcelona in October, which will also be attended by Algeria, will be presented at the June EU summit in Cannes, France. The Spanish presidency, which will begin in July, will then launch the initiative, "which goes far beyond the existing association agreements between several Mediterranean coastline states and the EU," the German paper said.

The "new concept," the paper wrote, includes "projects of infrastructure development such as, for example, an electricity supply grid and a highway all around the Mediterranean, a tunnel underneath the Strait of Gibraltar, and oil and gas pipelines from Africa to Europe." A special new fund, Medinvest, will be created to support medium-sized enterprises in the region, and it is "expected that the European Investment Bank will grant bigger loans to Mediterranean coastline states."

In Paris on Jan. 11, Juppé said that France and Germany resolved that the EC "must not degenerate into a free trade zone."

Middle East

Conference calls for pan-Arab economic bloc

Arabs should reconcile and unite in order to form a pan-Arab economic bloc, according to a call issued on Jan. 11 from a conference on economic challenges facing the Arab world. The conference, organized by the Paris-based Center for Euro-Arab Studies, called for the formation of an Arab League body to promote tax-free zones to develop Arab economies and to create an Arab import-export bank.

"Clearing the Arab atmosphere and putting an end to existing differences . . . guarantees the creation of the proper atmosphere to build an Arab economic strategy," the statement said. "This cannot be achieved if a comprehensive Arab reconciliation is not reached."

In his final address to the conference, which was attended by representatives of the European Union, Arab League Secretary General Esmat Abdel-Meguid reiterated a call for the creation of a free trade zone, to be called AFTA, as a first step toward forming a pan-Arab economic bloc.

Africa

Ghana installs nuclear reactor

Ghana has installed a nuclear reactor, the first of its kind in sub-Saharan Africa, and, according to the Ghana Atomic Energy Commission (GAEC), it will be used for research and the training of African scientists. "The reactor will facilitate geological surveying by producing samples, analysis of minerals, and production of radioisotopes for medical application such as diagnosis of cancer and other related diseases," GAEC chairman Prof. F.K.A. Allotey said, IPS news service reported on Jan. 11.

Allotey said that "Ghana Research Reactor One" will help boost the food supply by offering scientific methods for food preservation and finding solutions to agriculture-related problems. Hopefully, he said, the reactor will help to stop the exodus of Ghanaian scientists who, for lack of good facilities, among other things, leave the country to work abroad.

The radiotherapy unit of the Korle-Bu Teaching Hospital, Ghana's largest medical center, is expected to benefit from the reactor.

The reactor, which will be officially commissioned in March, was manufactured and installed by experts from the China Institute of Atomic Energy. Efforts to install a similar reactor by the GAEC, which was established in the early 1960s, were thwarted when the government of President Kwame Nkrumah was overthrown.

Petroleum

Ukraine, Georgia oil deal would bypass Russia

Ukraine and Georgia signed an agreement on Jan. 10 for joint construction of an oil pipeline, part of a plan to deliver oil to Ukraine.

The agreement was included in the Ukraine-Georgia Friendship and Cooperation Treaty that was signed in the Georgian capital of Tbilisi by Ukrainian President Leonid Kuchma and Georgian President Eduard Shevardnadze. At a joint press conference, both Presidents declared that in the future they will, "above all," coordinate foreign policy, and expand bilateral trade and economic contacts.

The plan involves joint construction of an oil pipeline which will take oil from Azerbaijan, through Georgia, to the Black Sea, and from there by tanker to Ukraine. This would give Ukraine the ability to receive oil from members of the Community of Independent States without having to rely on pipelines running across Russian territory. Shevardnadze commented, "Ukraine is looking for alternative sources of oil supply. One of these could be the use of oilfields in Azerbaijan."

Eastern Europe

Privatization schemes set back in Hungary, Slovakia

The policy of privatization, i.e., the selloff of state-owned firms to foreign buyers at fire-sale prices, which has been demanded by the International Monetary Fund and international financiers, has suffered setbacks recently in Hungary and Slovakia.

On Jan. 12, the Hungarian government canceled a major hotel privatization deal and fired its privatization chief, Ferenc Bartha. The government accused the State Property

Agency, headed by Bartha, of "professional lapses" and of ignoring "the interests of the national economy." The agency had agreed to sell 51% of the shares of 14 Hungarian hotels to American General Hospitality for $57.5 million, but Prime Minister Gyula Horn stopped the transaction because he considered the price too low.

The cancellation of the deal and the dismissal of Bartha is likely to exacerbate growing tensions between Horn's Hungarian Socialist Party and its coalition partner, the Alliance of Free Democrats, which opposed both moves. The Jan. 13 London *Financial Times* reported that the index of the Budapest stock exchange fell 66 points, the biggest one-day drop in nearly a year, in anticipation that the government would cancel the sale.

In Slovakia, opposition deputies from the Christian Democratic Movement, the Democratic Union, the Party of the Democratic Left, the Social Democratic Party, and the three ethnic-Hungarian parties, submitted a proposal on Jan. 12 to the Constitutional Court asking it to review two laws recently passed by the Parliament. One is an amendment to the large-scale privatization legislation transferring control over privatization from the government to the National Property Fund; the other cancels all direct-sale privatizations carried out by the Moravcik government after Sept. 6, 1994. The two laws were passed by the Parliament on Nov. 4, vetoed by the President, and overridden by the legislature on Dec. 21.

Banking

France prepares bailout of Crédit Lyonnais

While banks, insurance companies, and mutual funds are still counting their losses from the Mexican financial crisis, the French government is planning a second bailout of the Crédit Lyonnais bank, according to media reports. Last year, government funds for the bank reached 6 billion francs for recapitalization, and FF 18 billion in guarantees for bad real estate debt. This year, the state and, ultimately, French taxpayers, will quite likely fork out more than that.

The state will first have to increase provisions for bad loans. While the official accountants had estimated those provisions at FF 15-25 billion only last September, they have now raised that figure to FF 50 billion or more. The experts are also calling for a new injection of FF 5-6 billion to recapitalize the bank. (The total allocated in this year's budget for recapitalization is FF 8 billion.)

Last year, the FF 43 billion in bad real estate loans were moved into a new company, the OIG. This year, a similar solution is expected for the bad debts in sectors other than real estate, requiring a state guarantee of FF 10-15 billion. In addition, a new injection of FF 10 billion for bad real estate debt will be needed. Minimally, the state will pay out FF 25-31 billion this year, in addition to the new provisions and an expected deficit this year of FF 7 billion.

Science

Space Telescope study overturns quasar theory

Findings from the Hubble Space Telescope, which has been trained on 14 of the brightest quasars, have overturned the usual model of the quasar. Quasars are star-like objects with more ultraviolet emission than stars, whose spectra show large redshifts, and whose light may vary over just a few days. According to the usual model, a quasar was supposed to be an outpouring of energy resulting from the infall of galactic material onto a central black hole. For 8 of the 14 quasars studied, however, there is no galaxy at all.

Principal investigator John N. Bahcall of the Princeton Institute of Advanced Study told the press at a meeting of the American Astronomical Society in Tucson on Jan. 11, "This is a giant leap backwards in our understanding of quasars. . . . It's in nobody's theory."

According to astronomers of the school of thought founded by Armenian astrophysicist Viktor Ambartsumian, however, the new finding supports their long-held theory. They say quasars are ejected from the nuclei of galaxies as the seeds from which new galaxies form. Hence, some quasars would not yet have a surrounding galaxy.

Briefly

● **FRANCE** signed a $2.83 billion deal with China on Jan. 15 to supply two nuclear reactors for the expansion of the Daya Bay plant. The deal, worth more than France's total exports to China in 1994, guaranteed the long-term future of the nuclear industry in France, Industry Minister Jose Rossi said.

● **INDONESIA** and Exxon Corp. signed the biggest offshore gas deal in the world on Jan. 9, involving an estimated $40 billion to be invested in developing liquefied natural gas off Natuna Island in the South China Sea. The state oil company Pertamina and Exxon will each hold a 50% stake in the project.

● **A BRITISH** trade delegation, organized by the Iraqi British Interests Group, will be going to Iraq with the blessing of Her Majesty's government on Feb. 15, the Jan. 13 London *Financial Times* reported. The group claims "support of Conservative members of Parliament." It is involved in water treatment, engineering, construction, transport, and pharmaceuticals.

● **TURKEY** has been forced to raise taxes on some incomes, gasoline, tobacco, and alcohol in order to receive the remainder of a $740 million stand-by loan approved by the International Monetary Fund last July. Rents will be increased, and the Finance Ministry will "virtually halt all spending and payments in the first three months," a government official said.

● **GEORGE SOROS** said in Bucharest, Romania on Jan. 10 that he envisages "potentially investing $1 billion in India." Soros's Quantum Group announced plans in December to set up an India fund based on the "favorable climate" created by the Rao government's economic reforms.

● **JAPANESE** companies plan to take part in China's plans to build a $6.57 billion, 1,241-km canal to bring water from the Yangtze River to Beijing, the *Asahi Shimbun* reported on Jan. 11.

EIR Feature

Mexico's debt bomb explodes; who will follow?

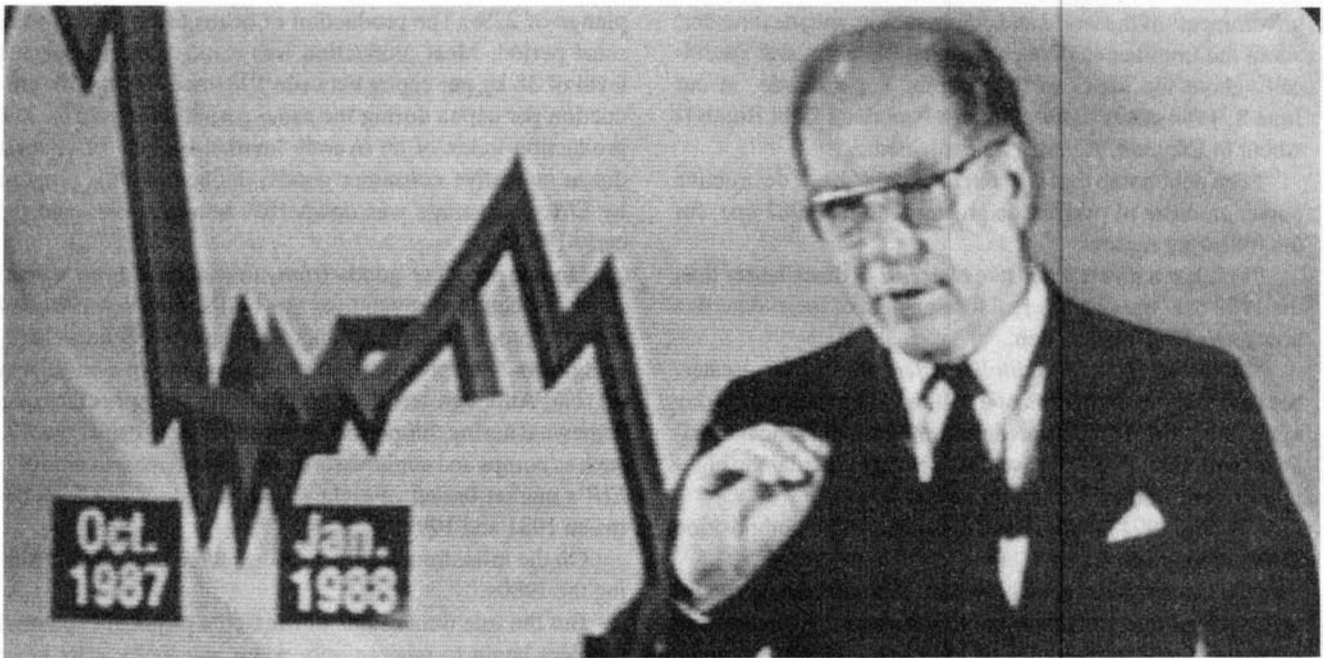
by Dennis Small

> Not only has Mexico's physical economy been looted to the point of collapse, but the figures show that even the final phase of bankers' speculative gain has been reached, and a financial blow-out is imminent. Other Ibero-American economies that have followed similar regimens, such as Argentina and Brazil, are also rapidly approaching a blowout phase. . . . In short, the charade about the "Mexican success story" is about to end. Will the nations of eastern Europe, of Ibero-America, and the rest of the Third World wake up in time?
>
> —*EIR*, April 23, 1993

One year and eight months after *EIR* published those words, they came true.

On Dec. 20, less than three weeks after his inauguration as President of Mexico, Ernesto Zedillo Ponce de León widened the flotation band of the peso against the dollar, in the face of growing speculative pressure against the Mexican currency. Within hours, the pressure turned into desperation and then into hysteria, as a full-scale run against the peso developed. As Mexico's foreign reserves plummeted from $17 billion to about $6 billion in the twinkling of an eye, the Mexican President had to choose between imposing foreign exchange controls, as his Venezuelan counterpart Rafael Caldera had done six months earlier under similar circumstances, or allowing Mexico's currency to float freely against the dollar. President Zedillo, a Yale-trained economist, chose the latter, and within days, the peso had been devalued by about 40%. The Mexican stock market also crashed.

This pre-Christmas meltdown of the Mexican financial system sent shock waves throughout the international markets. But greater than the financial shock, was the psychological and political shock that coursed through Wall Street and the City of London: The international financial oligarchy's vaunted "Mexico model" was dead. The North American Free Trade Agreement (NAFTA), set into motion



In this 1988 presidential campaign broadcast, Lyndon LaRouche forecast that the world economy would go through a "bouncing ball" pattern of collapse, with apparent, short-term fluctuations. LaRouche's record in forecasting the current explosion of the debt bomb in Mexico stands in sharp contrast to the "financial experts," who have almost unanimously touted Mexico's free-market austerity measures as a model for the developing sector.

by U.S. President George Bush, was dead. In fact, the entire British free-trade dogma that had ruled the world mercilessly for so long, was dead. The end of an era was in sight. The bankers were aghast.

The question now is: Will the people and nation of Mexico, and others like them around the world, be killed, too, as the moribund international system tries to perpetuate itself? Will the nations of Africa be annihilated on the altar of usury? Will the West continue to tolerate the imposition of International Monetary Fund (IMF) policies on Russia and the other countries of central and eastern Europe, driving that region into new wars, like that in Chechnya, and possible thermonuclear confrontation?

Or, will government and other political leaders instead seize the historic opportunity opening up, and establish a new, just international economic order premised on sovereignty and development? Will they recognize that the entire postwar financial system is finished, and must be put through bankruptcy reorganization? Will they look beyond their neighborhood, their nation, their region, to the global reality before us?

LaRouche's record

Although many have nervously compared the current explosion of the debt bomb in Mexico to the famous debt crisis of 1982, the fact is that the situation today is far worse, by an order of magnitude. As U.S. statesman Lyndon H. LaRouche has repeatedly forewarned in such documents as his June 1994 "Ninth Forecast" (see *EIR*, June 24, 1994), the world is rapidly reaching the end of a 600-year cycle of history. During this period, the fate of mankind has been shaped by a war launched by a Venice-spawned oligarchy against the cultural and scientific achievement of the European Renaissance, a war in which that oligarchy has been bent on imposing its bestial concept of man and the economic policies which spring from it: malthusianism, usury, and genocide. The free-trade doctrine of this oligarchy, today centered in Great Britain's House of Windsor, has led to the growth of a speculative monetary cancer which is now beyond all control.

The frenzied growth of the international scam known as the derivatives market is symptomatic of the problem: These Alice-in-Wonderland financial instruments today total a mind-boggling $45 trillion, and have absolutely no connection to any form of tangible production or activity. The speculative fabric of such derivatives has begun to unravel uncontrollably, as expressed in such crises as that in Orange County, California. As LaRouche has insisted since the onset of the Mexican crisis, "What's happening in Mexico is a continuation of Orange County, and there are many Orange Counties in the United States and elsewhere, but especially in the United States. . . . This should be looked at, primarily, not as a Mexico problem, though Mexico is afflicted with it; it's essentially a New York and London financial market problem."

For years, LaRouche and *EIR* have been warning the governments of the world and others such as you, dear reader, about the imminence of such a global blowout, and specifically about the Mexican time bomb. For example, in our June 3, 1994 cover feature, "Ibero-American Debt Bomb Is About to Explode, Again," we explained:

"The debt bomb that is about to explode has a destructive power an order of magnitude greater than the 1982 one, for the following reasons:

"1) It has a *direct explosive charge* 2-3 times larger than the 1982 one, because the real foreign debt of Ibero-America now totals $700-750 billion.

"2) It will have a *multiplier effect* that is far greater, because this three-quarters of a trillion dollar cancer is today more intertwined than its predecessor with a gigantic international structure of speculative finances, in particular the highly insolvent world derivatives market. . . .

"3) The 1994 bomb is *more volatile* in its composition than a decade ago. . . .

"4) The physical economies of Ibero-America are far *less resilient* today than they were a decade ago, and cannot continue to sustain the rates of looting required to keep the speculative bubble going."

Subsequent developments during 1994 have proven *EIR* right on each of these counts.

How did LaRouche know that something like this had to happen? Why was *EIR* able to forecast a new debt bomb explosion? And why did it happen?

Physical-economic meltdown

There are no answers to be found to these questions solely within the monetary or financial sphere, either in Mexico or internationally. One has to look at the underlying *real physical economy* of Mexico to understand why the debt looting process eventually had to blow apart. As we document elsewhere in this *Feature,* Mexico achieved a period of modest growth in the 1970s, which brought the country to levels which, although still grossly inadequate by international standards, nonetheless poised it at the turn of the decade to launch in-depth industrialization. President José López Portillo correctly adopted a policy of exchanging Mexico's oil for modern technology, while rejecting the IMF's shrill demands for austerity.

But beginning in 1982, the international oligarchy pulled the plug on the Mexican economy, and then imposed IMF policies by force. The critical consumption and production parameters—*as measured not in Gross National Product or other fraudulent monetary terms, but in physical units per capita or per household, and per square kilometer*—began to atrophy and then went into decline. Mexico dropped below physical-economic breakeven.

For example, the per capita production and consumption of staples in the Mexican diet have plummeted. From 1981 to 1994, the consumption of corn (from which tortillas are made) dropped from 258 kilograms per capita to 201 kg—a plunge of 22%. The production of beans fell by 37% in the same period. Meat production was static at the inadequate level of 38 kg per capita between 1981 and 1992; milk production per capita during the same period fell by 22%. The production index of an overall "market basket" of about a dozen indicative consumer goods, defined for this purpose by *EIR,* on average was down 16% between 1981 and the early 1990s.

On the producer goods front, things were even worse. After respectable growth over the 1970s, between 1981 and 1991 the production of steel ingots, measured per household, was down 27%; processed crude oil sank 30%; cement was off 2%. Although fertilizer and tractor use per hectare rose somewhat during this period, the production of capital goods, such as pumps and compressors, almost disappeared entirely. *EIR*'s market basket of eight producers goods fell 24% between 1981 and 1991.

On the infrastructure front, things were also terrible during the 1980s.

But the true dimensions of Mexico's physical-economic problem begin to emerge only when one looks at its labor force. Real unemployment today is widely admitted to be about 50% of the labor force. Real wages dropped by half from 1982 to 1994, and can be expected to drop by at least another 25% from their current level, as a result of the insane austerity program just imposed on the Zedillo government by the Wall Street gang. That means that, by the middle of 1995, real wages for the average Mexican will be about *one-third* of what they were in 1980!

As LaRouche recently summed it up, "They were issuing milk bonds, and the cow died."

The shock wave spreads

The explosion of the debt bomb in Mexico in December sent financial shock waves out in various directions. There are three dimensions in which the impact has been strongest, and where a chain-reaction effect may well occur over the coming weeks and months: 1) laterally, to other debtor nations, especially those in Ibero-America; 2) outward, toward the financial creditors of Mexico and other nations; and 3) inward, into the banking system of Mexico itself. On any of these fronts, the entire world speculative bubble could burst in the period immediately ahead.

1) Other Ibero-American debtors. Every country of Ibero-America, with the notable exception of Venezuela, has been engaging in the same speculative frenzy, combined with destruction of its physical economy, that is evident in Mexico. They are all candidates for catching the "Mexican disease," or the "tequila effect" as some have taken to calling it.

Argentina. Probably next in line. Here the pathology of the speculative cancer is almost identical to that of Mexico—only worse. Argentina has been running a sizeable trade and current account deficit; like Mexico, it has papered this over with huge inflows of highly volatile, speculative capital; and like Mexico, it has implemented economic policies that are shattering the country's living standard, productive base, and infrastructure. But unlike Mexico, Argentina's Harvard-trained Economics Minister Domingo Cavallo has linked the peso to the dollar *by law,* removing all possibility of sovereign national control over the domestic credit system. And also unlike Mexico, Argentina has already handed over its national oil company, YPF, to the international financial predators, through privatization. Argentina thus has even less maneuvering room within the system than Mexico had. The wild card here is that President Carlos Menem is facing reelection in May 1995, and he may come to have second thoughts about how he will fare if Argentina continues to travel down the Mexican path.

Brazil. Despite hysterical claims from most Brazilians that their situation is completely different from Mexico's ("We don't even speak Spanish here," one particularly stupid Brazilian businessman pathetically told the *Wall Street Journal*), the fact is that their policies have been very similar to Mexico's, and their much-touted foreign reserves of nearly $40 billion are volatile and could vanish virtually overnight, as Mexico's did. This fact is recognized, in private, by some among the principal economic advisers to President Fernando Henrique Cardoso, but so far the Cardoso government has pledged its allegiance to maintaining the speculative cancer. And they have already worsened matters by meeting bankers' demands to issue what are effectively *dollar*-denominated treasury bills, known as NTN-Ds. This is exactly what Mexico did beginning in the spring of 1994 with their *Tesobonos,* which have now blown up in their faces.

Peru. This is another case where the productive economy has been devastated for the last 30 years, but where the monetary side has been propped up by recent, large speculative capital inflows, for example into the Lima stock market. Peru is highly vulnerable, and even the slightest reversal of these financial flows will throw the country into a tailspin.

Venezuela. In June 1994, faced with a banking crash and massive capital flight, President Caldera wisely imposed exchange controls. This not only stopped and then reversed the looting of the country's foreign reserves, but it also showed the entire continent that there are alternatives to slavish submission to the IMF and banker-ordered national hara-kiri. While every other country of Ibero-America was being financially pummeled by the Mexican debacle, with stock market crashes and withdrawal of hot foreign funds, Venezuela alone has remained relatively calm. But the Caldera government has not yet gone beyond such defensive half-measures, to reorganize the national banking system and kick off actual economic growth, and so the country remains vulnerable to the storm surrounding it.

2) The creditor banks. Can Mexico's creditor banks, and the mutual funds and others that have invested heavily in other Mexican debt instruments, survive the explosion of the Mexican debt bomb? Given their own highly insolvent status, probably not. As *EIR* was the first to document, Mexico's *real* foreign debt today stands at about $213 billion, far more than the $141 billion reported as official foreign debt. The lion's share of this is held by U.S. banks and other financial institutions, which have been correspondingly hysterical at the prospect of a Mexican default. Fidelity Latin America Fund, for example, has a multibillion-dollar exposure in Mexican debt instruments, and it ended 1994 down −23.17% from a year earlier. Or take the case of Citibank, whose largest component of annual profits last year came from their Ibero-American operations. Or what about the dozens of other U.S. banks that hold most of the $25 billion of debt owed by Mexico's insolvent commercial banks, debt which was collateralized by the Mexican banks' holdings of now highly questionable government *Tesobonos?*

And if the creditor banks do manage to survive the Mexican mess by blackmailing the Clinton administration into bailing *them* out, by backstopping Mexican government and private debt payments, to the tune of tens of billions of dollars, what happens when Argentina blows? Or Brazil? Or when the dam gives way with another Orange County-style bankruptcy?

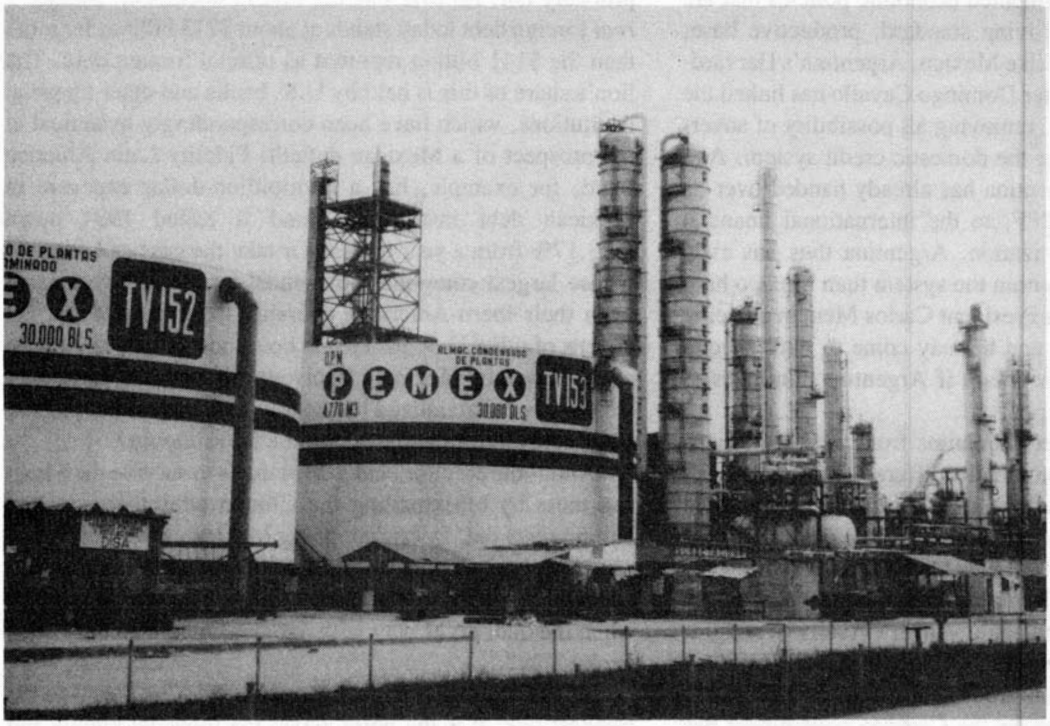
3) Mexico's own banking system. This may well be the weakest link: It is the point where the financial bubble and the physical economic collapse intersect most tangibly.

The Mexican banking system was already tottering at the edge of insolvency *before* the December meltdown began, with very high non-performing debt ratios as a result of the destruction of the country's physical economy. One of the major additional contributing factors was a massive wave of *illegal* capital flight out of the country during 1994, amounting to over $20 billion, on top of the "legal" net capital exports reflected in the run-down of foreign reserves. This is a phenomenon which has so far gone unnoticed and unreported by anyone other than *EIR,* but the numbers are unmistakeable. Such capital flight constitutes a return to a kind of outright thievery from the nation of Mexico not seen since the early 1980s, which led up to President López Portillo's mid-1982 declaration of a debt moratorium and break with the IMF.

Since the December 1994 crisis, domestic interest rates on the benchmark 28-day *Cetes* notes have zoomed from 14% up to 40% in one month, driving the "overnight" rate to 60%, and most consumer credit (mortgages, credit cards, etc.) is at that level or higher. All informed observers are predicting a wave of personal and corporate bankruptcies in Mexico, which will bring down large chunks—if not the entirety—of the banking structure as well.

The Venetian 'solutions'

The "solutions" to the Mexican crisis that have been mooted to date by Wall Street and other financial circles, are genocidal, and clinically psychotic. They are premised on the standard Venetian policy of feeding the cancer at the expense of



A Pemex plant in Veracruz, Mexico. A principal feature of the bankers' plans for Mexico, is to force the nation to privatize its national oil company, while mortgaging oil reserves in order to guarantee payment of the debt.

the patient, and generally fall into three categories:

1) Preserve the speculative bubble at all costs by feeding it further. Thus, with $213 in Mexican foreign obligations becoming insolvent, Wall Street has put together a "rescue package" of at least another $18 billion of mainly *government* monies, plus another $5 billion in loans from commercial banks and $2.5 billion from the IMF, bringing the total to $239 billion right there. On top of that, there is a possible additional $40 billion in U.S. government-backed loans, which could conceivably stabilize the peso in the short run, but would do so at the expense of an increase of the credit bubble in the medium to long term. In that way, the cancer of the Mexican debt will probably grow from $213 billion to $279 billion within the first part of 1995—an increase of over 30%. This is not a bailout of Mexico; it is a bailout of Mexico's creditors.

2) Kill off Mexico and the Mexicans to make sure that the income stream to the banks continues. This has two components. First, drastically reduce Mexicans' standard of living to Auschwitz-like levels, using IMF-brand programs of real wage reductions, government spending cuts, interest rate hikes, and credit curtailment. And second, force Mexico to turn over its national oil company, Pemex, to the banks, via "privatization," while at the same time mortgaging its huge oil deposits to guarantee debt repayments. The British intelligence-run Zapatista National Liberation Army (EZLN) in the state of Chiapas and the opposition PRD party of Cuauhtémoc Cárdenas are crucial weapons that are being deployed to achieve these bankers' goals.

3) Bail out the U.S. banks at the expense of the U.S. taxpayer and U.S. national sovereignty. Under the secret financial protocols of the NAFTA agreement, which went into effect on Jan. 1, 1994, the U.S. Federal Reserve became the lender of last resort behind all dollar-denominated obligations issued out of Mexico—a clear violation of U.S. sovereignty as well as that of Mexico. Now the banks are calling that promise in, and demanding that the U.S. government (i.e., taxpayer) make good on all of Mexico's debts, both public and private. What this amounts to is nothing less than a de facto increase of U.S. government debt by nearly $300 billion!

Time for sanity to prevail

At the time of the 1982 debt crisis, Lyndon LaRouche warned of the consequences of not defusing the debt bomb. In August of that year, he issued his historic study *Operation Juárez,* with detailed policy proposals for how to use the Ibero-American debt crisis to put the entire international financial system through bankruptcy reorganization and thus open the door for real economic growth. Those same policy proposals, including LaRouche's call for the formation of a debtors' cartel, Ibero-American integration, and the creation of an Ibero-American Common Market, remain fully valid today. They have been restated time and again by LaRouche and his associates in different locations over the intervening years. They show the way out for any nation of the world which chooses not to go under with the sinking *Titanic* of the international financial system.

Mexico's financial crisis: metastasis of a speculative cancer

by Carlos Cota Meza

The free-float of the Mexican peso adopted by the government of President Ernesto Zedillo on Dec. 20 brought to the surface all of the country's economic problems that have remained unresolved since the 1982 debt crisis. Fourteen years after President José López Portillo (1976-82) suspended foreign debt payments and imposed exchange controls, a policy later revoked by his successor, Miguel de la Madrid (1982-88), we find that all of the programs of "debt restructuring," "structural change," and "economic modernization" imposed by creditors to guarantee foreign debt payment were only demented efforts to try to prevent the volcano from erupting.

As the current financial debacle shows, during the government of Carlos Salinas de Gortari (1988-94), not only did this policy remain unchanged, but the looting of the Mexican economy by foreign creditors was accelerated to such a degree that by 1993 and 1994 it had reached frenzied proportions. Despite the ominous signs revealed in all economic indicators under Salinas, the "Mexican economic miracle" was praised in every speculative center of the globe.

On Dec. 22, 1994, President Zedillo stated that the previous government had underestimated the gravity of the huge current account deficit in the balance of payments. A few days later, he accepted the resignation of Finance Minister Jaime Serra Puche, who was then blamed for failing to correctly assess how to deal with the time bomb left by Salinas. The current government also pointed to the violence and political events of 1994 as influencing the financial situation.

But in confronting the crisis, the government is applying the same policies that caused the problem in the first place. President Zedillo is committing the same mistakes as De la Madrid and Salinas. On the one hand, through the Unity Agreement to Overcome the Economic Emergency, he is applying the same disastrous austerity plan imposed by the International Monetary Fund (IMF) in 1982 (budget slashing, layoffs, credit and wage restrictions, and devalued exports). On the other hand, he is maintaining the same financial formula as Salinas, which led to the current crisis by opting to reestablish the financial markets—trying to again attract "foreign investment" to the stock and money markets, through bargain-basement privatizations of ports, airports, petrochemical plants, telecommunications, etc., which, so the story goes, would contribute up to $12 billion to the financial stabilization program.

What Salinas did

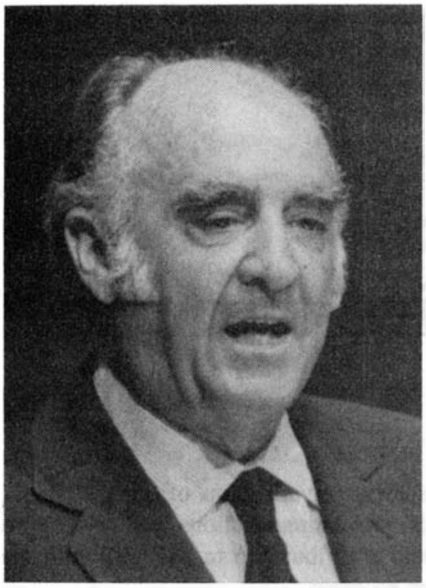
In *EIR*'s June 1994 study on "Why the Debt Bomb Is about to Explode . . . Again, we forecast precisely the crisis which has just erupted. We analyzed the role of the current account deficit and how this was being financed by a highly speculative capital inflow, taken from one short-term debt market to invest in another "emerging market's" short-term debt market ("hot money" capital flows). For the first time, we also demonstrated the existence of a new category of real foreign debt, aside from the officially recognized foreign debt, whose growth has been astounding.

Through what is fallaciously called "foreign investment" or the "historic increase in foreign reserves," the Salinas government created a new debt category which would nominally be called internal or national debt, but which is de facto a foreign debt or obligation, either because its creditors are foreign investors, or because that internal debt is directly denominated in dollars. This is the case with the treasury certificates known as *Cetes,* more than two-thirds of whose total issuance is in foreign hands, and the *Tesobonos,* which are negotiated in dollars, regardless of their owners' nationality.

The current crisis began in this "foreign investment" sector and now threatens all sectors of the national as well as the international economy.

The current account deficit has become a major point of debate. President Zedillo says the problem was "underestimated." On the other hand, in his sixth State of the Nation address on Dec. 1, 1994, outgoing President Salinas affirmed that the existence of that deficit was "proof that the country is using foreign resources" to make possible expansion of its productive plant "at greater speed" than if only national resources had been used.

In fact, Salinas and the operatives of his "model," Pedro Aspe as finance minister and Miguel Mancera as president of

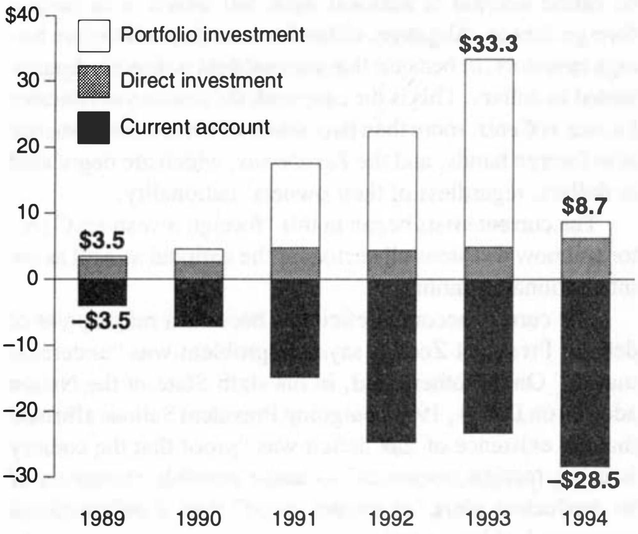


Three Mexican Presidents (left to right): José López Portillo, who suspended foreign debt payments and imposed exchange controls in 1982; Miguel de la Madrid, who revoked these measures and implemented Wall Street's policies; and Carlos Salinas de Gortari, whose programs intensified the looting of the economy to the present point of catastrophe.

the autonomous central bank, the Bank of Mexico, are lying.

As shown in **Figure 1,** the investment which could potentially give real "speed" to Mexico's economy would be direct foreign investment; but since 1991, this has become a smaller percentage relative to so-called portfolio or variable-yield investment, which is nothing more than the trading of stocks and bonds on the markets, guided by their speculative potential rather than any real dividends or profits of the companies which issue them.

FIGURE 1
Foreign investment versus Mexican current account deficit
(billions $)



Sources: Banco de México, World Bank, Inter-American Development Bank, *Summa.*

In fact, the scheme imposed by creditors foresaw foreign investment attracted to speculative markets where it would find juicy profits. At the same time, a portion of that capital would become part of Mexico's foreign reserves needed to finance the "trade opening," which would destroy national production with massive imports offered at dumping prices, thus creating the biggest trade deficit in the history of the republic.

There were several factors in 1994 which provoked the flight of this hot money, among them the country's political problems, combined with the increase in U.S. interest rates, the dollar crisis, and the Orange County, California bankruptcy, considered the beginning of the end of the era of financial derivatives. In an effort to keep the money in the country, Salinas, Aspe, and Mancera took a number of insane actions which only came to light after the eruption of the financial debacle under Zedillo.

At the beginning of the Salinas government, a mechanism called the financial "switch" was established. This presupposed that any instability in variable profit that might drive investors away could be dealt with by movement in fixed income, where investors would be offered profits higher than any other emerging market and even higher than U.S. profits. Once the instability had passed and the fixed terms matured, the investments could go back to the stock market.

As Mancera admitted before the October 1994 Banking Convention, the "switch" began between April and May (after the assassination of the presidential candidate of the ruling PRI party, Luis Donaldo Colosio). The Bank of Mexico made unprecedented purchases of *Cetes* from the private banks, thereby transforming itself in effect into the primary creditor of the financial intermediaries. And through manipulation of interest rates, it reduced foreign investment in *Cetes* by 54% (measured from June 1992) and increased foreign investment in dollar-denominated *Tesobonos* by 1,249% (**Table 1**). The total amount of all bonds was $29.5 billion by the end of November, prior to the peso devaluation.

This relative substitution of dollar-denominated bonds for peso-denominated bonds is what the large U.S. mutual funds such as Fidelity Investments of Boston demanded of Mexico, since they didn't want to face the risk of a peso devaluation.

Salinas happily complied with their request, to the detriment of his nation.

The bulk of *Tesobonos* had 90-day maturities, coming due just one week after the Aug. 21, 1994 presidential elections. Subsequent *Tesobono* issuances had 90- and 120-day maturities—they would come due under the new government—with yields higher than U.S. notes. It is now these same pieces of paper which reflect Mexico's financial insolvency, with $16.9 billion coming due in the first six months of 1995. This is almost the entirety of the $18 billion bailout package which the Zedillo government claims to have negotiated with the international creditors and with the U.S. government.

The official calendar of *Tesobonos* coming due in 1995 is as follows (note the enormous quantities coming due in July and August):

Month (1995)	**Billions of dollars**
January	$ 3.6
February	3.5
March	3.2
April	1.8
May	2.7
June	1.9
July	3.7
August	4.1
September	0.7
October	0.9
November	2.2
December	0.7
Total	**$29.2**

As the new finance minister, Guillermo Ortiz, has repeatedly admitted, the value of *Tesobonos* in public hands amounts to $29 billion, much of this—$18 billion—held by foreigners. The government is desperately seeking a way to extend these maturity dates or get creditors to agree to swap this matured debt for a new longer-term, higher-yield instrument, backed by the export revenues of the state-run oil firm, Petróleos Mexicanos (Pemex).

In the composition of direct foreign investment by sector

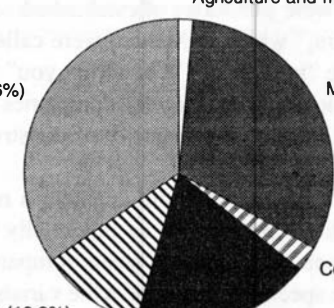
TABLE 1
Foreign holdings of Mexican government debt, 1994
(billions new pesos)

Date	Cetes	Tesobonos	Total*
January	48.8	4.5	69.5
February	54.7	5.3	77.8
March	50.8	10.3	78.1
April	38.4	23.3	73.4
May	32.8	30.3	75.6
June	30.8	35.5	78.2
July	27.4	44.0	82.4
August	25.0	56.0	87.2
September	24.2	52.6	84.3
October	25.0	50.3	83.8
November	21.9	53.8	81.0
Variation	–54%	1,249%	+19%

* The total also includes Pagafes, Bondes, and Ajustabonos.

Source: Banco de México.

FIGURE 2
Direct foreign investment in Mexico, by sector, 1989-94
(percent of total)

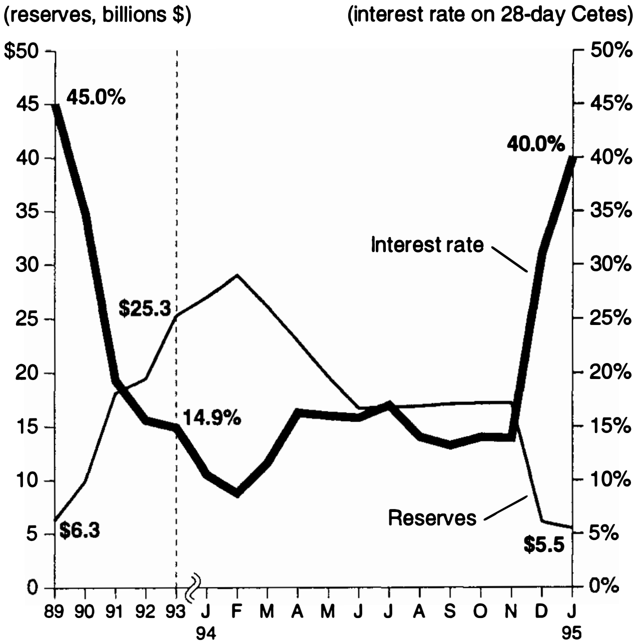


Source: SECOFI, México.

(**Figure 2**), note that the potentially productive portion of this is really smaller than it appears. Between 1989 and 1994, this amounted to $25.9 billion, but in the best of cases, something less than half of it would correspond to new and potentially productive investments.

Investment in services and trade is not productive in economic terms, yet these two categories together represent 45% of accumulated direct investment. We could identify potentially productive investment in other categories, but a good

FIGURE 3
Reserves and interest rates in Mexico



Sources: Banco de México, IMF.

portion of these were purchases of established companies or "hostile takeovers," which in Mexico were called "strategic alliances," of the "join me or I'll bankrupt you" type. Moreover, these hostile takeovers targeted companies with a speculative potential such as the majority of construction firms quoted on the stock market.

In the best of cases, we could consider a maximum of $10 billion in direct investment as potentially productive, which can be seen as laughable when compared with the magnitude of the speculative bubble in the variable-yield and capitals markets.

National bankruptcy

Note in **Figure 3** how the operatives of the Mexican "economic miracle" fell into chaos in their desperation not to devalue the peso, and to guarantee Carlos Salinas the presidency of the World Trade Organization.

In January and February 1994, foreign reserves continued to rise, reaching their historic peak of $29 billion, after which they began to fall continuously. By June, reserves had dropped by $12-13 billion.

After the murder of Luis Donaldo Colosio, internal interest rates drastically increased. Measured against the officially recognized inflation of 5%, increments were more than 200%. Interest rates increased by almost 100%, reaching above 16% for 28-day *Cetes*. Yields for *Tesobonos,* negotiated in dollars, had to compete with the increase in U.S. yields, and at the same time had to appear more attractive to variable-yield investments which were leaving the stock market.

This time bomb went off between Dec. 19 and 20, and in the days that followed, foreign reserves dropped by another $11 billion, to end up at $6 billion. This is the equivalent of six weeks of imports, and starkly represents Mexico's national financial bankruptcy. As Zedillo's government now admits, reserves were only flows of "investment in short-term financial instruments." At that moment, Zedillo had the choice of either doing what Venezuelan President Rafael Caldera had done, and impose exchange controls, or accepting bankruptcy. Unfortunately, he chose the latter.

According to preliminary data of the 1994 balance of payments, the profits paid by the government's financial instruments (*Cetes* and *Tesobonos*) to foreign investors totalled $10.329 billion as of June 1994. Taking into account the dramatic increases in interest rates, these payments will almost certainly exceed $20 billion. Who will pay them?

The insanity of the central bank's interest rate policy can be seen in the leap in interest rates for *Cetes,* instruments which now no one can or wants to buy. In the secondary markets, their rates exceed 60%. The same now applies to *Tesobonos,* whose interest rates are more than 20% for 28-day maturities. Yet even at these rates, they haven't sold. For its dollars, Mexico is paying interest rates as high as those imposed by Paul Volcker as head of the U.S. Federal Reserve during the 1970s, which eventually led to the Ibero-American debt crisis.

The banking system sinks

Apart from the insolvency of the Mexican government, the immediate effect of this situation will be the disappearance of the national private banking sector, with the potential for a chain reaction of bankruptcies. At the present time, according to reliable sources, there are already five banks considered impossible to save.

The arrears of manufacturing and agricultural producers and of the trade sector, which have threatened the banking sector for years, will now become impossible to pay with the new stratospheric interest rates. This applies to all lines of credit, from personal and business loans to mortgages, car loans, and credit cards.

According to the *official* figures of the National Banking Commission for the first half of 1993, debt arrears accounted for 6.7% of the banks' total loan portfolio, twice the safety margin established by the Bank for International Settlements (BIS) in Basel, Switzerland. But insiders estimated the *real* arrears to be as high as 20-30% of the total loan portfolio.

In 1993 alone, the real debt arrears of the agricultural sector reached $12 billion. Arrears of the manufacturing sector were assuredly much larger than the agricultural (perhaps that is why they always tried to hide it). Both economic sectors, essential to meeting México's domestic needs, were

TABLE 2
Mexico's actual foreign debt
(billions $)

	1993	1994
1) Public foreign debt	$ 84	$ 85
2) Private foreign debt	35	56
—of banks	20	25
—of corporations	15	31
3) "Internationalized" internal debt	26	32
—Foreign-held Cetes	25	4
—Tesobonos	1	28
4) Cumulative foreign investment in stock market	38	40
Total	**183**	**213**

Sources: Banco de México, SHCP, BMV, EIR.

devastated by the government's "trade opening" policy, both through the rise in cost of credit and because of the overall economic stagnation that same government policy caused.

During 1993 and 1994, it was a recurring practice to refinance defaults, capitalizing the interest and adding it to the initial capital, thereby opening up a new "line of credit." Through this accounting trick, the banks turned their arrears into "performing" debt, in an attempt to meet world banking norms so that they could both qualify for foreign credit and as potential partners with the bank transnationals, the same ones that would be launching operations inside Mexico in 1995. According to sources, in the aftermath of the latest crisis, all foreign banks authorized to operate in Mexico—with the exception of Chase Manhattan—announced a suspension of any moves in this regard until June 1995.

The Mexican banking system now faces the condition of being at once insolvent creditors and delinquent debtors. As can be seen in **Table 2** and **Figure 4,** the foreign debt of the banking sector went in one year from $20 billion to $25 billion (a 25% increase). A large part of that debt was collateralized with *Tesobono* investments, which are also insolvent. According to statistics of the National Banking Commission, Mexico's private banks are currently facing payments of $8.7 billion on loans which their international creditors do not want either to renew or to renegotiate. In sum, the Mexican private banking system, privatized just 30 months ago, is in absolute bankruptcy. All that is missing is the official announcement.

Flight capital and the real foreign debt

One of the things that has most contributed to the debacle of the banking system, has been massive *illegal* flight capital, especially in 1994. This is apart from the $19 billion in reserves which "legally" abandoned the country last year. This is the surprising conclusion of a thorough study of Mexico's balance of payments accounts, but it is a fact that until today has been revealed by no one other than *EIR* (see **Table 3**).

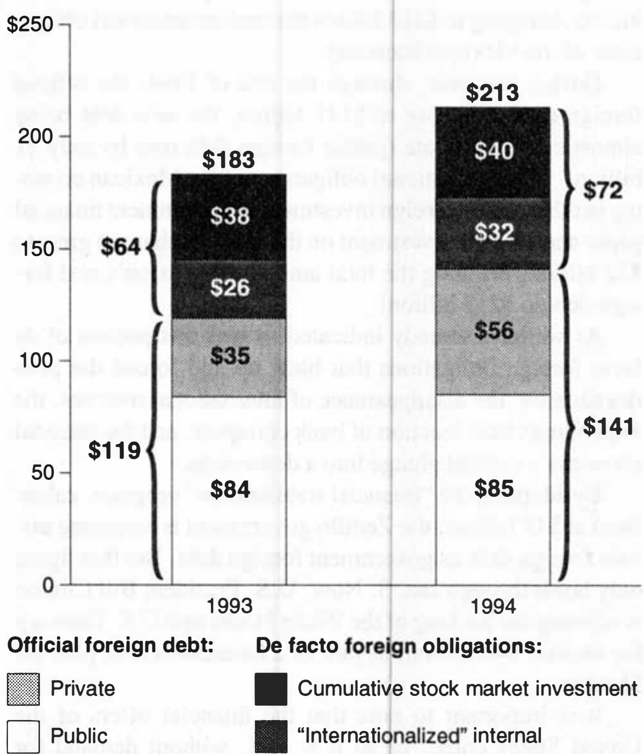
As the story goes, Mexico used up its reserves and asked for a loan from abroad to cover its current account deficit. But basic arithmetic shows that something else was going on. In 1993, for example, Mexico obtained $38.8 billion in foreign capital, but it *officially* applied only $23.4 billion of that to the current account deficit, and another $6.1 billion went to increase its foreign reserves. This left a difference of $9.3 billion in *unregistered* outflow; that is, flight capital.

The figures for 1994 are even more shocking. Last year, $30.7 billion in foreign capital entered Mexico (of which $22 billion was an increase in the official foreign debt and $8.7 billion was in "foreign investments," primarily speculative capital). Part of the total was used to pay the current account deficit of $28.5 billion, but the rest did not go to boost reserves, which in the course of the year *fell* by $19.2 billion. No one knows what that money was used for.

Stated another way, the amount of available capital which remains unaccounted for—that is, flight capital—is $21.4 billion.

Total combined flight capital for 1993 and 1994 is $30.7

FIGURE 4
Real Mexican foreign debt
(billions $)



Sources: Banco de México, SHCP, BMV, EIR.

TABLE 3
Capital flight out of Mexico
(billions $)

	1989	1990	1991	1992	1993	1994	1989-94
1) Growth of official foreign debt	$–5.4	$12.2	$ 9.3	$–1.9	$ 5.5	$ 22.0	$ 41.7
2) Foreign investment	3.5	4.6	17.5	22.4	33.3	8.7	90.0
3) Capital entry (1+2)	**–1.9**	**16.8**	**26.8**	**20.5**	**38.8**	**30.7**	**131.7**
4) Current account deficit	4.0	7.1	14.9	24.8	23.4	28.5	102.7
5) Growth of reserves	1.0	3.4	7.8	1.2	6.1	–19.2	0.3
6) Capital use (4+5)	**5.0**	**10.5**	**22.7**	**26.0**	**29.5**	**9.3**	**103.0**
7) Implicit capital flight (3–6)	**–6.9**	**6.3**	**4.1**	**–5.5**	**9.3**	**21.4**	**28.7**

Sources: World Bank, IMF, Banco de México, SHCP, *Summa*.

billion. Nothing remotely like this has happened since 1982, during the presidential term of José López Portillo, when massive capital flight led to a break with the International Monetary Fund and a debt moratorium.

Flight capital is not the only thing that has been underestimated by virtually every commentator on Mexico. It is also the case that the *real* foreign debt of Mexico is 50% higher than what is reported as the official foreign debt. As we analyzed in our May 1994 study, the official foreign debt (public and private) in 1994 added up to $119 billion, while foreign investment on the stock market equalled another $64 billion, bringing to $183 billion the real international obligations of the Mexican economy.

During one year, through the end of 1994, the official foreign debt then rose to $141 billion, the new debt being almost entirely private (public foreign debt rose by only $1 billion). The international obligations of the Mexican economy in other areas (foreign investment in government financial paper and foreign investment on the stock exchange) grew to $72 billion, bringing the total amount of Mexico's real foreign debt to $213 billion!

As we have already indicated, it was this portion of de facto foreign obligations that blew up and forced the peso devaluation, the disappearance of international reserves, the impending chain reaction of bank collapses, and the national economy's current plunge into a depression.

By adopting the "financial stabilization" program, calculated at $18 billion, the Zedillo government is assuming private foreign debt as government foreign debt. But that figure only holds through Jan. 3. Now, U.S. President Bill Clinton is offering the backing of the White House and U.S. Treasury for another $40 billion, as part of a financial rescue plan for Mexico.

It is important to note that the financial offers of the United States come, or so it is said, without demand for collateral and with interest rates equivalent to those carried by three-month U.S. Treasury bonds. This operation may perhaps alleviate speculative pressure in the short term, but in the longer term it can only aggravate the situation: If the current parameters are not completely changed, it is only the international speculators who have plundered this country who will be rescued. And if this is so, it only confirms our charges, made in an *EIR* cover story of Oct. 8, 1993, on the secret financial accords behind the North American Free Trade Agreement (NAFTA). These involve the tacit absorption of Mexico's central bank into the U.S. Federal Reserve, which would issue dollars from Mexico without going through the banking and currency controls of the U.S. Congress, in order to refloat speculative bubbles in other parts of the world.

In this dance of the billions, if the initial $18 billion emergency package is concretized, plus the $5 billion more in foreign loans of which Treasury Secretary Ortiz spoke, plus the $2.5 billion that the government is seeking in a standby loan from the International Monetary Fund, we can see that Mexico will be shouldering a real foreign debt burden of $239 billion. This is equivalent to the entire foreign debt of Ibero-America in the early 1970s. If, in addition, Mexico is forced to draw on the $40 billion proferred by the United States government, its real foreign debt will have reached by mid-1995 the stratospheric sum of $279 billion.

To the extent that other agreements are struck, the amount will steadily increase, all destined to fall into the sinkhole of insolvency in the end. The government's immediate nightmare is the next six months, when it must pay off a minimal $16.9 billion in maturing *Tesobonos*.

We ask: How will this whole new round of restructuring of debts, which have been undergoing restructuring since 1982-83, be paid?

With an eye on the oil

The answer has already been given by the creditors. On Jan. 4, the City of London's *Financial Times* commented that foreign investment will only return to Mexico with "the

A 1989 rally by Mexico's oil workers, demanding freedom for their jailed leader, Joaquín Hernández Galicia, and opposing the privatization of the national oil company Pemex. Today, the New York Times *is demanding that those who oppose the economic destruction of Mexico be subjected to the same repressive treatment that Hernández Galicia received.*

sale of existing electricity generating capacity . . . Pemex's basic petrochemicals businesses and the allowing of foreign participation in Mexican oil fields." The same newspaper proposed that payment on *Tesobonos* be backed by "longer-term bonds whose payment would be guaranteed by oil production."

Responding to the agreement for overcoming the financial emergency, the U.S. financial daily *Journal of Commerce* demanded of the Mexican government on Jan. 5: "Why not sell Pemex? . . . The time for a go-slow approach is past; Mexico's economic crisis demands bolder action."

It is clear that on the part of the international creditors, there is no discussion about restructuring debts, but rather political and financial pressure on the Zedillo government to privatize Pemex. Since Jan. 4, 1995, not a day has passed on which privatizing the oil has not either been demanded or refused. The most significant statement in this regard came from Energy Secretary Ignacio Pichardo Pagaza, who on Jan. 6 denied that the possibility of privatizing Pemex was even being considered. He was seconded by the president of the ruling PRI party, María de los Angeles Moreno.

In reaction to this "drawing of the line" by the Mexican government, the stock market plunged. Bank of Mexico Governor Miguel Mancera Aguayo reported on the flight of some $600 million, which lowered the international reserves still further and which provoked a new fall in the peso's value against the dollar. Mancera announced that the credit line from the U.S. Federal Reserve had entered into operation and the Fed began buying Mexican pesos! Apart from these "market effects," newspapers like the *New York Times* began demanding that the Zedillo government begin to jail and politically eliminate the so-called "dinosaurs" of the Mexican political elites, who are opposing (or might oppose) the privatization of Mexico's oil.

The *New York Times* dubbed such an approach a "La Quinazo," in reference to the illegal jailing by former President Salinas of oil workers union leader Joaquín Hernández Galicia ("La Quina") early in his term. That this criminal action by Salinas against "La Quina" is now urged as official policy, confirms that Hernández Galicia is a political prisoner of the international creditors, and that Salinas de Gortari was treasonously working to privatize Mexican patrimony.

How far President Zedillo will go in resisting these pressures to become another Salinas, we cannot say. What we do know is that the only alternative Mexico has to preserve its sovereignty, is to suspend payment on the public foreign debt and to establish strict exchange controls. Zedillo must also disavow any responsibility for the private foreign debt and for the obligations generated by foreign portfolio investment.

To do this, he must ally with Venezuelan President Rafael Caldera, to create a common debtors' front and to establish Ibero-American integration.

Mexico's physical economy: the body that the debt cancer is destroying

by Dennis Small and Peter Rush

As useful as it is, both politically and economically, to study and expose the debt and other mechanisms that are looting Mexico and other nations, the *causality* behind a breakdown crisis such as today's lies elsewhere: in the realm of real, physical economic processes, a subject matter studiously avoided by virtually every trained economist today.

Yet, this is a science that traces its roots back to Gottfried Leibniz (1646-1716); has been applied in every case of successful industrial capitalist development known to man; and is the central subject of Lyndon LaRouche's scientific breakthroughs in the middle of the twentieth century.

It is from this standpoint that we can unequivocally state that the Mexican economy has been disintegrating since the early 1980s. We can say that the decisive parameters of consumption, production, and infrastructure have plummeted during this period by some 15-25%—from already unenviable levels. And we can therefore conclude that it is *physically impossible* to maintain the debt cancer any longer. Either the cancer is extirpated, or Mexico will end up "Africanized" and will disappear as a nation.

What is the science which enables us to make these assertions?

LaRouche's science of physical economy

LaRouche's method of physical economy (see box) rejects as useless any monetary measurement of the economy, such as Gross National Product (GNP) and balance of payments, none of which can distinguish between the value of a million dollars invested in a steel plant and the same million invested in the construction of casinos and whorehouses in Las Vegas or Acapulco. Instead, in order to determine which kinds of productive activity increase the technological power of each member of the workforce with respect to nature, the LaRouche method measures the *physical* production of consumer goods, of the means of production, and of basic infrastructure, which is useful for the reproductive economic process, and also measures its effects on the productivity of the labor force. All of this is measured by densities per capita, per household (the basic unit of social reproduction), and per square kilometer of total land and/or land in use.

Economic success is most clearly expressed by the exponential increase in the relative potential population density of a society, or by comparing it with that of another. As LaRouche explained in a recent commentary:

"The description begins with a simple requirement that the rate of increase of potential population density be greater than zero. This requires technological progress, which requires increases of production *per capita* and *per square kilometer*, and of labor productivity *per capita* and *per household*. Those conditions are expressed as improvements in the area used *per square kilometer* and *per capita*, and improvements in the tools and materials of production."

The fundamental source of such continuous improvements, LaRouche explains, is human creativity—that quality which distinguishes man from, and makes him superior to, all other animal species. It is precisely this distinction which the Venetian oligarchy disagrees with, and which they are determined to annihilate whenever and wherever it appears.

With this in mind, a properly growing physical economy must meet these four criteria:

1) The per capita and per household consumption of the workforce, and of the total population, must increase, as measured in terms of comparative quality and quantity of contents of its total "market basket" of consumer goods. Yet the total amount of time, and the proportion of the total labor force, which is required to produce that basket, must decline.

2) The "market basket" of producers goods must also increase, and at a more rapid rate than that of consumer goods—that is, production must become increasingly capital-intensive. This is closely associated with the rising urbanization of society as well.

3) Energy density per household and per square kilometer must also increase, as must the energy flux density of the power sources employed—i.e., they must become more *efficient*, as well as more *dense*, per unit area of economic activity. This latter is closely correlated with leaps in applied technologies in use—e.g., from biomass to hydrocarbon to nuclear energy sources.

4) The "free energy of the system" must increase relative to the total energy of the system. That means that even as the

TABLE 1
Physical economy indicators

Country	1970 U.S.	1970 Germany	1970 India	1970 Japan	1970 China	Taiwan 1970	Taiwan 1990	Mexico 1970	Mexico 1980	Mexico 1990
1. Life expectancy	71.3	70.6	48.4	73.3	59.1	69.1	74.1	61.2	64.9	69.7
2. as percent of 71.3 years	100%	99%	68%	103%	83%	97%	104%	86%	91%	98%
3. × population per km²	22	245	170	279	85	408	571	25.7	34.2	43.1
4. = Lifetimes per km²	22	242.5	115	286	70	395	593	22.1	31.1	42.2
5. People per household	3.2	2.9	5.1	3.9	4.6	5.6	4.0	6.1	5.6	5.0
6. Km² used area per 1,000 households	72.7	6.8	15.5	2.8	22.1	6.6	3.4	11.8	8.2	5.9
7. 1,000s kwh consumed per km² used area	355.7	1,562	30.4	4,631	24.9	796	5,014	25.6	60.2	106.3
8. 1,000s m³ water consumed per km² used area	110	190	220	1,070	110	819		55*		
9. Tons food produced per km² crop area	345	2,167	323	1,505	243	1,094	1,015	159*	194	215†

* 1975 †1985

economy requires ever higher consumer and producers goods market baskets, the total output of the economic cycle must rise more rapidly still, making increased proportions of total output available for reinvestment and expansion. This latter requires constant technological progress, and therefore human creativity. In other words, there is no "steady state" economy: There is either growth, or decay and collapse.

Mexico's lost opportunity

We present here some of the preliminary results of a longer study under preparation, on the past 25 years of Mexico's physical economy. We have chosen for the current purpose indicative material which, although partial, nonetheless characterizes the entirety of the process under consideration.

Over the course of the 1970s, Mexico sustained moderate physical economic growth in the range of an average 2-3% per capita per year. The per capita production of consumer goods rose by about 16% between 1970 and 1981, for an average annualized growth rate of 1.4%; and the production of producers goods per household rose more rapidly (as should be the case in a healthy economy), growing by almost 60% in this period, for an annualized growth rate of 4.4%.

This positioned the country for potential significant industrial development in the years ahead—although it must be emphasized that where Mexico stood in 1980, by international standards, was still woefully inadequate on almost every front. In **Table 1** we have added calculations for Mexico in 1970, 1980, and 1990 to a table of important physical economic indicators first presented in the May 29, 1992 issue of *EIR*. The baseline year of 1970 was chosen in that study, because it represented the last year of general physical economic advance before the "post-industrial society" and other New Age dogmas took over and wrecked the world economy.

The first four lines are a calculation of comparative population densities, but with the more precise parameter of "lifetimes" per square kilometer, which takes into account the different life-expectancies in the countries under consideration. To put it schematically, an economy which can sustain 100 people per km^2 is more successful than one sustaining 70 per km^2, everything else being equal; and one sustaining 100 people per km^2 with an average longevity of 80 years is more successful than one sustaining 100 people per km^2 with an average longevity of 75 years. Mexico's population density, or "lifetimes density," is actually quite low, compared to most industrialized countries.

Line 7 is a measure of energy intensity in the economy, calculated per square kilometer of land in use. This includes that portion of the total national territory which is available to current economic activity: both arable and pasture lands, as well as transportation and urban land areas (where these data are available). In 1980, Mexico consumed only 60,200 kilowatt hours of electricity per km^2, which put it in the same ballpark as the underdeveloped nations of India and China, and was less than 20% of the U.S. figure. Compared to the highly energy-dense economies of Germany and Japan, Mexico had 4% and barely 1% of their levels, respectively.

Another crucial parameter reflecting the general state of infrastructure is seen in line 8, water consumed per km^2 of used area. Here the only available figures for Mexico are for 1975, which show that its 55,000 per km^2 compared poorly with the industrial economies shown. Mexico's use was less than 30% of Germany's, for example.

The evident conclusion to be drawn is that, despite moderate growth during the 1970s, Mexico's situation in 1980 was not good by international standards. But this by no means precluded successful industrialization in the years ahead, since sufficient potential was available. In fact, countries like South Korea and Taiwan also had physical economic parameters in 1970 in the same order of magnitude as Mexico's. But in these countries, a gigantic leap did occur over the next two decades, whereas Mexico went in the opposite direction: down.

The reasons for this are entirely political. In the late 1970s, Mexican President José López Portillo made policy decisions that were correct. He announced that the country's large oil reserves would be traded for modern technologies; that International Monetary Fund (IMF) austerity policies would be rejected; that 20 nuclear energy plants would be built, four entirely new port cities would be constructed, and an aggressive drive was undertaken to construct new public and private steel complexes and to build greatly increased refinery and petrochemical capacity. Moreover, a climate of intense national optimism began to prevail.

But the financial oligarchy would have none of this. Through their mouthpieces such as Henry Kissinger and Zbigniew Brzezinski—the latter at that time the national security adviser to President Carter—they announced bluntly: "We will not tolerate another Japan south of the border," meaning that Mexico would not be permitted to industrialize.

LaRouche's method of physical economy

The following excerpt from a May 8, 1994 memorandum by Lyndon LaRouche develops the core concepts of basic economics.

Let us describe a successful economy, one in which the per-capita physical productive powers of agricultural and industrial labor are increasing, and in which the per-capita physical standard of living is increasing. Let us consider only those inputs which affect the production of those elements representing that per-capita standard of physical consumption, and physical consumption which is necessary for that level of per-capita productivity of physical output.

Express this relationship as a *changing* one, in which that per-capita consumption and that per-capita physical productivity are both increasing.

This must be expressed in terms of relative rates of change. Thus, in the first approximation, the functional description is set up in the following terms. This makes clear the general nature of the required distinction between "productive" and "non-productive" activities. All measurements are made in terms of both the changes in the whole, and per-capita values of changes in the whole. It is relations among these changes, rather than relations among objects, which are to be studied.

Changing Rate of Output, in respect to Changing Rate of Input. Call the first F(y) and the second F(x). Hence, F(y)/F(x). All three functions are measured in terms of rates of change of whole magnitudes and rates of change in per-capita values of these whole magnitudes.

F(x) treats all of those physical elements of consumption necessary to sustain per-capita physical productivity at a given technological and related level. This includes households' (physical) goods, producers' goods, and basic (physical) economic infrastructure. To this must be added three essential components of maintenance and increase of the potential per-capita productive powers of labor: science and technology, education, and health care.

F(y) treats all of those classifications of physical and service products which are listed in F(x).

We next define growth as contingent upon some function of F [F(y)>F(x)]. This includes two principal terms:

1) $F(y_1)/F(x_1)<F(y_2)/F(x_2)$.

2) Let r signify per-capita value of population-density. Then $|F(x_2)|/r>|F(x_1)|/r$.

Let us name F(x) the "energy of the system," and $|F(y_i)-F(x_i)|$ the "free energy" of the process. Thus, we have the ratio of "free energy" to "energy of the system" as the first term, and per-capita-per-kilometer energy of the system as the second. We have a function in which $F(y_i)/F(x_i)$ is now a function of $[F(x)/r]_i$.

According to the generally accepted principles of current classroom mathematics, these constraints are impossible; yet, they occur in every successful economic process. This signifies to the competent mathematician that the formal representation of such processes has a higher cardinality than is provided by any presently generally accepted variety of classroom mathematics instruction. This was the core of the first phase of my original discovery, back during 1948-49.

This result, which is apparently anomalous from the viewpoint of today's generally accepted classroom mathematics, is the inevitable result of the nature, the characteristic feature, of the process considered: that the changes described by the sets of constraints come about as a result of fundamental scientific and related forms of discoveries, discoveries which appear in the functions as absolute discontinuities. This occurs to such an effect, that the func-

The oligarchy delivered on this pledge. In early to mid-1982, they launched a full-scale financial destabilization of Mexico, including capital flight and other forms of economic warfare. Ultimately, because of lack of support from other Ibero-American leaders, President López Portillo was destabilized and defeated. His successor, Miguel de la Madrid, took office in December 1982, and immediately began implementing the policies of the IMF and the bankers: austerity, free trade, and unquestioning servicing of the foreign debt.

The country has never since recovered.

The decade of disaster

Beginning with the economic warfare of 1982, there is first stagnation and then decline in most of Mexico's principal physical economic indicators. Then, with the implementation of neo-liberal economic policies in the late 1980s, under President Carlos Salinas de Gortari, leading up to the adoption of the North American Free Trade Agreement in the early 1990s, the decay turned into outright collapse. One of the clearest reflections of this is the shocking drop between 1980 and 1992 in the total number of workers employed in the manufacturing sector, which is a parameter that is of decisive overall importance, as explained above.

In **Figure 1** we show both the total number employed in manufacturing (including the *maquiladora* sector of assembly plants along the border with the United States, which,

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tions so defined bound externally, as higher cardinalities, all possible transcendental functions. My later work, during 1952, showed me that these are functions located within the higher domain of alephs.

We restrict the term "productive" to that general definition. We may add terms to the functional listing of products or services only insofar as they satisfy those same restrictions. This means that subtracting from an existing category of listing to add a new term, requires that the replacement itself increase the physical productivity of labor per capita for that society as a whole.

The other restrictions required are subsidiary to those given here. These definitions are supplied for a physical-economic process described without any consideration of the existence of money. The study of money and monetary systems should be conducted to show how different rules of the money game produce different modes of human economic behavior, either relatively sane ones, or, in the extreme, the kind of ever-worsening lunacy shown by governments and financial institutions generally during the recent decades.

The meaning of the term 'physical economy'

The following is excerpted from a memorandum by Mr. LaRouche, presented at a May 26, 1994 Washington press briefing:

The characteristic feature of successful physical economies is the increase of the potential population-density of society, in per capita, per household, and per square kilometer terms. The cause of this increase is predominantly those changes in the productive powers of labor which are typified by investment in improved technologies, as the possibility of such (physical) investment is conditioned by requirements for use of sources of power and improvements in the development of the environment used for this purpose.

This measurement defines individual productive labor in terms of biophysical and cultural demographic functions of households, and defines existence of households, of individual productive labor, and of output of productive and other labor in terms of per household, per capita, and per square kilometer terms. What is measured in the production of the per capita productive powers of labor by means of the process of production so defined.

The measurement to be made chooses any instant of a continuing process of production of the productive powers of labor through the medium of the reproduction of those products which are the essential inputs for the households and productive processes represented. The adequate parameter for measurement of these products and services is the total of physical products consumed by households and production entities, plus only three categories of services essentially (demographical and otherwise) to maintaining the rising productive powers of labor: science, health care, and education.

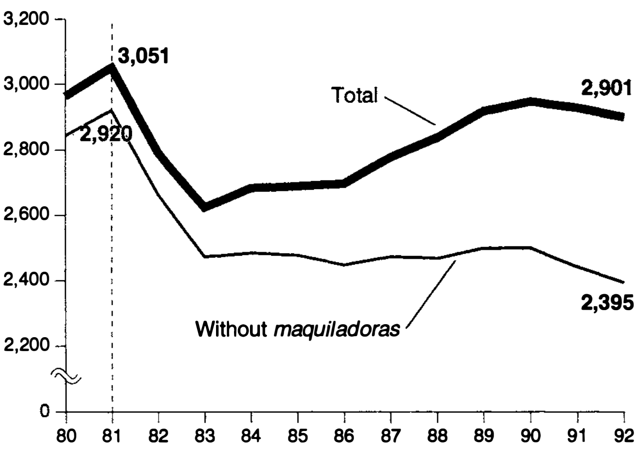
The input at any instant is a magnitude corresponding to "energy of the system." At that same instant, the net of output less input corresponds to estimated "free energy."

In these terms, the characteristic inequality, is:

That the continuing increase of the ratio of "free energy" to "energy of the system" is contingent upon a continuing increase of the intensity of "energy of the system" per capita, per household, and per square kilometer.

The increase in the productive powers of labor in this way, correlates with required increases in power- and water-density, with a shift from a primarily rural production, a continuing increase in basic physical infrastructure of production, and with a shift within the composition of the urban labor-force increasing relatively the ration of producers' goods over households', of machine-tool component of producers' goods, and with an increase in the ration of employment in "pure science and technology."

FIGURE 1
Employment in manufacturing
(thousands of employees)



economically speaking, is a foreign enclave unrelated to the productivity of the Mexican economy), as well as those employed in manufacturing in the Mexican economy proper. This last number plummeted from 2.92 million employed in 1981, to 2.395 million in 1992—an 18% drop in absolute terms. But as a percentage of the total labor force, employment in Mexican manufacturing dropped from a pathetic 13%, down to a catastrophic 7.7%—a 40% decline during the 1980s, which can rightfully be described as the decade of disaster. The reader should keep in mind that LaRouche has specified that a successfully developing economy should have about 50% of its total labor force engaged as industrial operatives. Mexico has less than one-sixth that number.

Manufacturing has not been the only area where real employment has fallen. In early 1993, *EIR* calculated that total real unemployment in Mexico then stood at about 50% of the labor force, and that real wages had also plummeted since 1980 by 50%. The result has been a devastating spread of the official category of "poverty," which now affects 40 million Mexicans, of whom 17 million are suffering "extreme poverty," out of a total population of 85 million (according to official statistics).

These conditions of the labor force speak volumes about what has happened to Mexico's physical economy over the last decade, a reality which is confirmed when we take a more detailed look at some of the components of productive activity.

Table 2 presents a summary overview of the evolution of 11 sectors of consumer goods, and 8 of producers goods. The data presented run from 1970 through 1991, which in most cases is the last year available. Where data for 1991-94 are available, they indicate that the process of economic decay has, if anything, worsened. The principal source for the table and the following graphs is the Statistical Appendix to the Nov. 1, 1994 State of the Union address presented by outgoing Mexican President Salinas de Gortari, which was cross-checked against various international sources, including the United Nations, the U.N.'s Food and Agriculture Organization (FAO), Economic Committee for Latin America (ECLA).

Although usable series for physical production—as measured in physical, not monetary, units—were by and large available, no equivalent adequate data for exports and imports were found, with few exceptions. It is therefore not yet possible to show statistically what *EIR* otherwise knows to be the case: that production has in general dropped more sharply than consumption, because throughout the late 1980s and early 1990s, Mexico has been flooded with foreign imports that have replaced domestic production, for example, textiles and food products. It should be noted that Mexico will now be forced to cut back drastically on its imports, and therefore consumption, as part of its commitment to cut its current account deficit in half, in order to be able to pay its foreign debt.

One instance where reliable trade data were available was

TABLE 2
Production indices
(1981=100)

	1970	1981	1991
I. Consumer goods			
Wheat	115	100	94‡
Corn	82	100	94‡
Sorghum	60	100	38‡
Beans	86	100	63‡
Meat	63	100	102†
Milk	76	100	78†
Fruits and vegetables	82	100	116†
Tires	61	100	106
Stoves	65	100	87
Soap	95	100	111
Cloth	157	100	30
Total	*86*	*100*	*84*
II. Production goods			
Cement	60	100	98
Processed crude oil	56	100	70‡
Caustic soda	85	100	72
Iron	80	100	51*
Steel ingots	78	100	73
Compressors	29	100	7
Fertilizers	38	100	104*
Tractors	74	100	130*
Total	*63*	*100*	*76*
III. Employment in manufacturing (excluding maquiladoras*)*		*100*	*82†*

* 1990 † 1992 ‡ 1994

FIGURE 2
Grain consumption and production
(kilograms per capita)

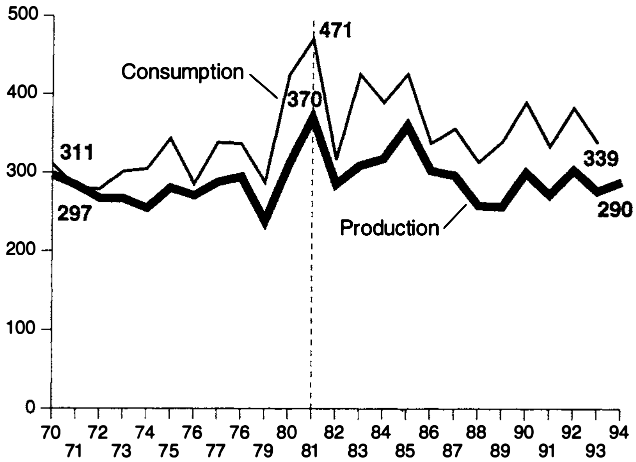


FIGURE 4
Meat production
(kilograms per capita)

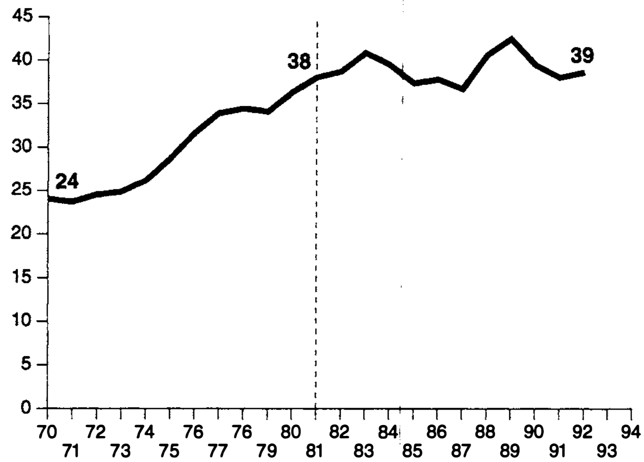


FIGURE 3
Bean production
(kilograms per capita)

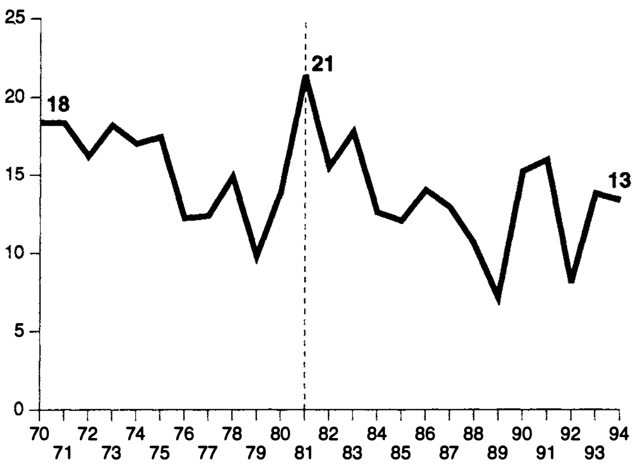
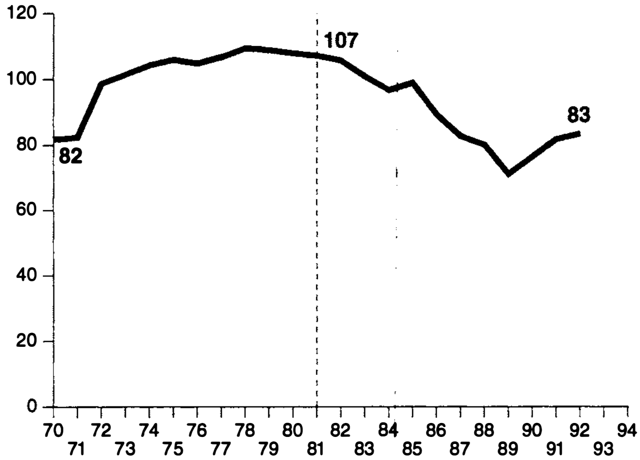


FIGURE 5
Milk production
(kilograms per capita)



for total grains, where production dropped by 22% between 1981 and 1994, but part of that shortfall was made up by imports (**Figure 2**). Of the grains, sorghum had the sharpest production drop, as seen in Table 2; but perhaps more significant politically is the 6% drop in per capita production of corn between 1981 and 1991. Corn is one of the food staples in the Mexican diet, as are beans, whose production plummeted by 37% over that 10-year period (**Figure 3**). Mexicans simply produced, and ate, less of their principal food products after 1981.

The same holds true for those items which the average Mexican rarely sees, but which are nutritionally excellent, such as meat (up 2% in a decade), eggs, and milk (down by 22% over 11 years). See **Figures 4 and 5.**

The remaining non-food items which we considered for our representative market basket of consumer goods, including household items such as stoves (**Figure 6**) and soap, showed similar per capita stagnation (which of course portends a coming drop) or outright decline. The case of cloth production—cotton, wool, and synthetics—deserves particular mention, because it has suffered continuous collapse since 1970. But from 1981 to the present, it has virtually

FIGURE 6
Production of stoves
(units per 1,000 households)

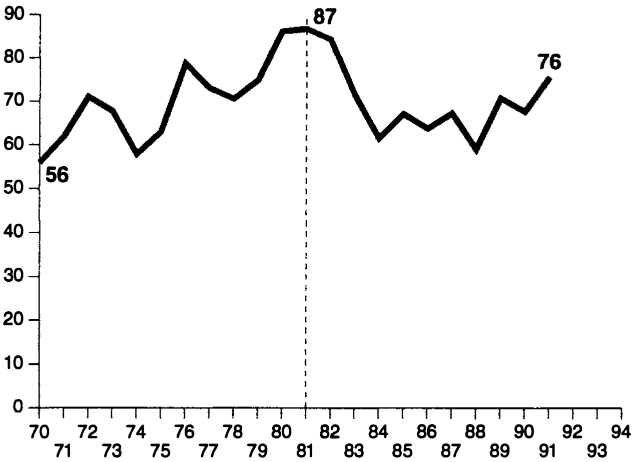
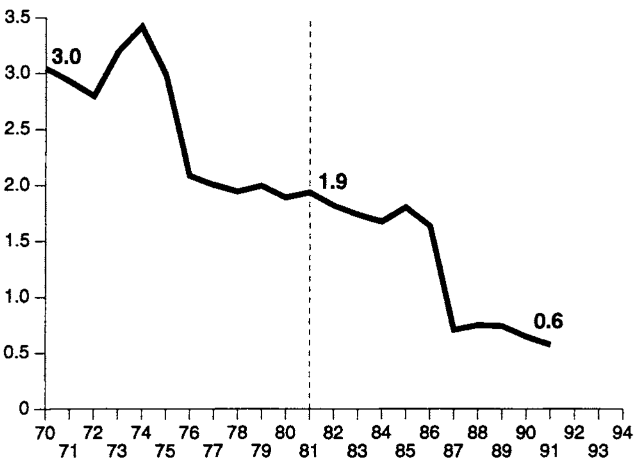


FIGURE 7
Production of cloth
(kilograms per capita)



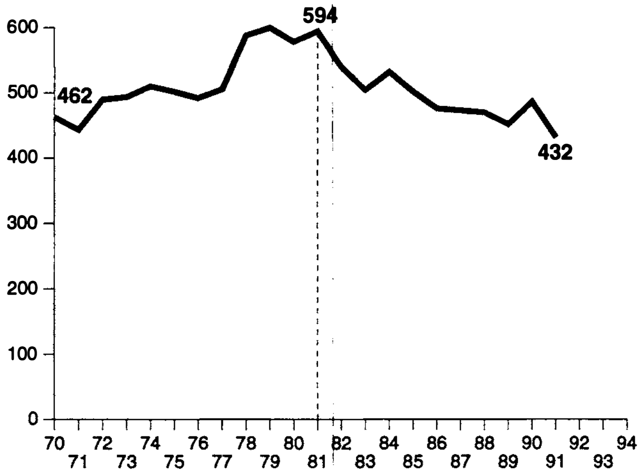
disappeared, dropping by 70% in that time period (**Figure 7**). This is an example of an entire sector of domestic industry—and its employees—being wiped off the map, victims of the IMF's free-trade dogma.

In sum, the physical output of consumer goods dropped by about 16% per capita from 1981 to the early 1990s—a sure sign of a very sick economy. But things were even worse on the producers goods front.

Deindustrialization takes hold

In a healthy economy, the production of producers goods will tend to grow more rapidly than that of consumer goods—

FIGURE 8
Production of steel (ingots)
(kilograms per household)



as occurred in Mexico during the 1970s. Lawfully, when an economy *decays*, producers goods will as a rule *decline* more rapidly than consumer goods, exacerbating the rate of collapse of the entire economy. This is what happened to Mexico over the last decade, where overall production per capita in this area plunged by 24%, as Table 2's market basket shows.

Iron ore and steel ingots fell by 49% and 27%, respectively (**Figure 8**), as the governments of De la Madrid and Salinas strangled, asset-stripped, and then sold off ("privatized") the respectable beginnings of a national steel industry that Mexico had begun to build up under López Portillo. The same kind of thing happened with petrochemicals and refinery capacity that were either planned or already under construction, such as the impressive Los Pajaritas complex—the results of which can be seen in **Figure 9.** After a healthy 245% increase of the production of processed crude oil per household between 1970 and 1981, the following 13 years saw a 30% decline. The production of petroleum proper showed a similar trend, although in this case it is probably best explained by the conditions on world oil markets—i.e., by the economic depression which has reduced the demand for oil, and its price, worldwide.

Even cement—whose production can often rise even under conditions of real economic decay, since it is used in the construction of both productive and unproductive projects (e.g., luxury tourist hotels, office buildings for bankers and drug-runners)—dropped slightly over the 1980s (**Figure 10**).

But the greatest horror story is reserved for the sector of machinery and equipment, which preliminary data indicate has plunged even more rapidly than the average. Characteristic of the problem is what happened to industrial compressors, an important capital good, which dropped by 93%,

FIGURE 9
Production of crude and processed petroleum
(m³ per household)

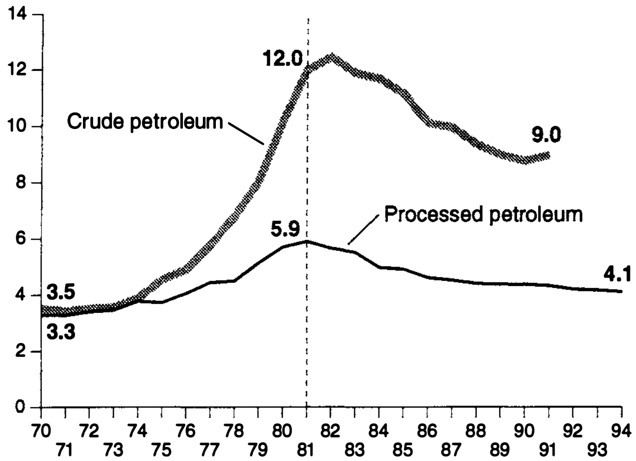


FIGURE 11
Production of compressors
(units per 1,000 population)

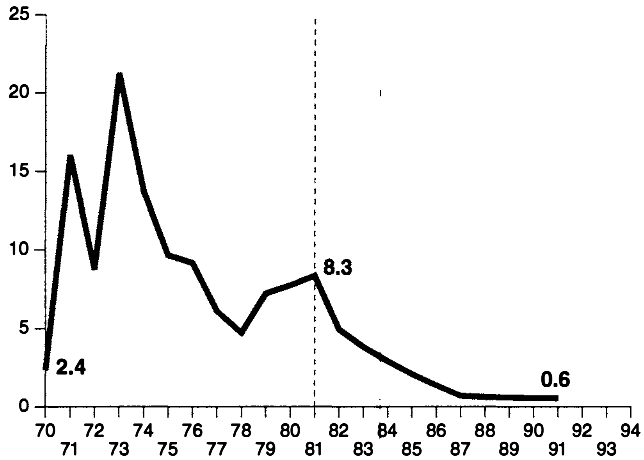


FIGURE 10
Cement production
(kilograms per household)

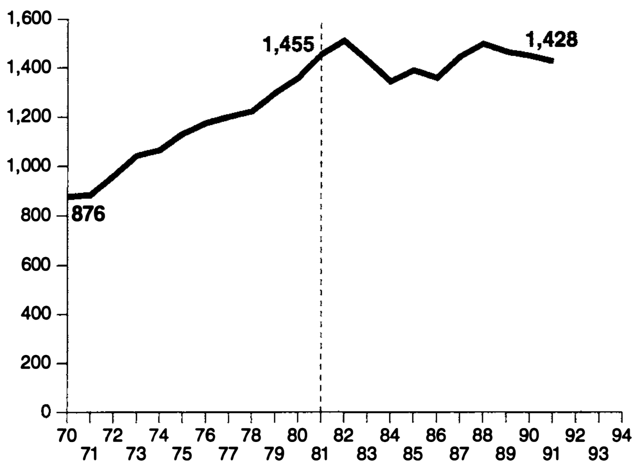
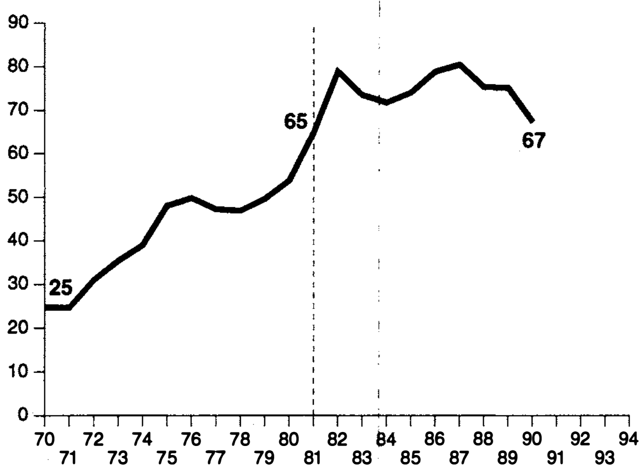


FIGURE 12
Fertilizer consumption
(kilograms per hectare)



down to about 0.6 units per 1,000 people in 1991—i.e., the sector virtually disappeared (**Figure 11**).

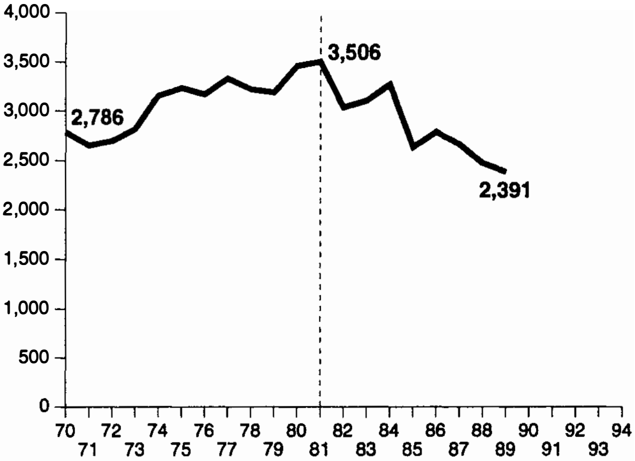
This trend is particularly ironic, because the Salinas government frequently defended the country's out-of-control trade deficit and scandalous speculative capital inflows, by arguing that the latter were being used to pay for imports of capital goods, which would in turn allow the country to produce lots of manufactured goods for export. Of course, nothing of the sort ever happened.

We conclude our brief survey of producers goods by referencing two critical inputs to agriculture: fertilizers and tractors. The former stagnated in use per hectare over the decade (**Figure 12**), while the latter grew by an unimpressive 3% per year. Mexico's agricultural sector remains correspondingly unproductive.

The infrastructure gap

In his discussions of the principles of physical economy, Lyndon LaRouche has repeatedly emphasized the importance of investment in infrastructure projects, of both the "hard" variety (energy, water, transportation) and the "soft" (health, education). This is because, although investment in

FIGURE 13
Railroad traffic
(ton-kilometers per household)



infrastructure does not produce tangible output as such, it does something even more important: It *produces productivity.* In other words, it raises the overall efficiency of the productive process as a whole.

The absence of investment in infrastructure will ultimately sink even a growing economy; when it is absent in a sickly one, the problems will rapidly worsen. When there is *net disinvestment,* as there is in a number of critical infrastructure areas in Mexico (such as transportation), it is a virtual death sentence.

It is hard to exaggerate how bad Mexico's rail infrastructure is. Outmoded and decrepit, the total kilometers of track are extremely low by international standards. Ton-kilometers transported by rail are quite low, and they fell by nearly a third during the 1980s (**Figure 13**). Some might argue that this is because most of Mexico's freight is shipped, not by rail, but by highway, on trucks—which is true enough, but merely proves the point. Outside of water, rail is the most efficient form of freight movement, while trucking is among the most inefficient and costly for everything other than short, local runs. The fact that Mexico relies on trucking rather than rail simply shows how deficient its transportation infrastructure is.

What adds insult to injury, is the fact that in 1993 and 1994, Wall Street bankers and others forced Mexico to set up a system of privatized toll roads, which the bankers effectively took over through bonds and so forth. They then hitched the value of these bonds to a projected future income stream of toll collections, which were then raised to exorbitant levels—such as charging $5 each way for the 45-minute drive from Mexico City to Toluca.

Not surprisingly, almost no one—and especially not truckers—can afford the new toll roads, and so they have stayed on the old, increasingly decrepit public highways. So now Mexico's transportation is even worse than it was three years ago, raising the costs of all national production and consumption, while the bankers' bond issuances have collapsed in value, much to their dismay. This is a classic example of what LaRouche has referred to as the bankers' floating milk bonds, and then killing the cow.

The situation regarding water supply is also quite bad, but much harder to document, given the lack of current data. The last available information is from 1975, as shown in **Table 3.** Mexico is a relatively water-rich nation, as seen in the fact that its ratio of *available* water to total area is the same as that of the United States. But most of Mexico's water resources are in the southeast of the country, where the water runs to the sea unused, whereas water is most urgently needed for agriculture in the arid center and north of the country. Although two great hydraulic resource projects have been on the books for years, the Plhino and the Plhigon, which would vastly improve this situation, the Mexican government has never gone ahead with them, because of heavy financial pressure from its credit banks, the IMF, and others.

Thus, although Mexico has a lot of water available, the amount of it that is actually *withdrawn* or used is a mere 15%—about half the proportion that prevails in the United States and Germany.

Electricity is the one relatively bright spot in the "hard infrastructure" picture, with consumption rising steadily from 1970 through 1994, both in terms of domestic and industrial use (**Figure 14**). But these relatively modest

TABLE 3
Water availability and withdrawals
(million m³/km²)

Country	United States	Germany	India	Japan	China	Mexico
Water available/total area	180	320	560	1.460	280	181
Water withdrawn/used area	110	190	220	1.070	110	55
Withdrawals as percent of water available	30.8%	37.3%	20.5%	15.1%	17.2%	15.2%

FIGURE 14
Electricity consumption, by sector
(kilowatt-hours per capita)

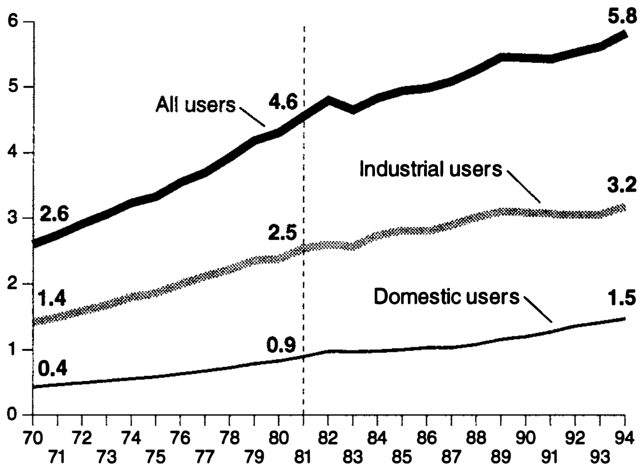


FIGURE 15
Schools
(per 1,000 population)

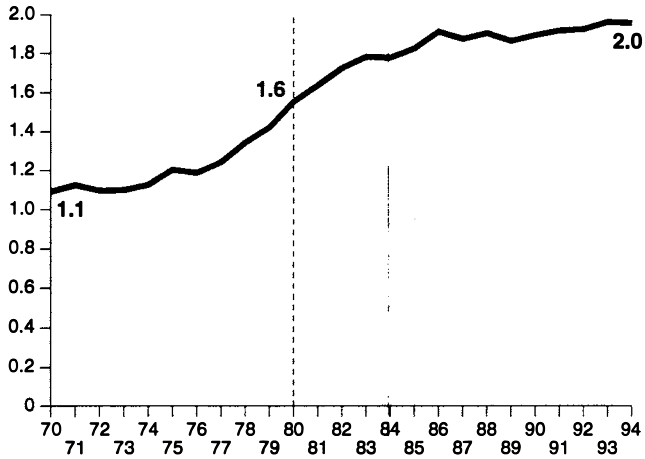
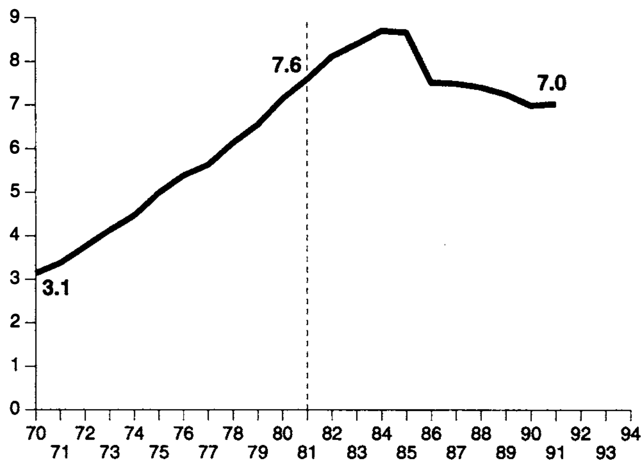


FIGURE 16
High school students
(per 1,000 population)



growth rates should be compared to those achieved by Taiwan, for example, to see how far Mexico is from the leaps in energy density that are required to achieve real development. Referring back to Table 1, Mexico's consumption of electricity rose from 25.6 kwh per km^2 of used area in 1970, to 106.3 twenty years later—for an average annual growth of about 5.5% for the first decade, which then dropped to a little over 3% for the second decade. Taiwan, on the other hand, leapt from 796 kwh per km^2 of used area, to 5,014 in 1990—an average annual growth of nearly 10%.

As for the "soft" infrastructure, including health and education, it is safe to say that the impact of the decreasing investment in these areas over the course of the 1980s has still not been fully felt. Thus, infant mortality has continued to decline (dropping from 68.5 per 1,000 live births in 1970, to 35.7 in 1981, to 17.5 in 1993); life expectancy has risen (from 67.1 in 1981 to 71.5 in 1993); and reported illiteracy had dropped (from 15.8% of the 12-and-over population in 1981, to 12.4% in 1990). But as **Figure 15** shows, the number of schools per capita has levelled off, which will soon enough take its toll. And enrollment for all levels of students, per thousand population, has also begun to decline. **Figure 16** shows the case for high school students, but the same pattern applies to primary and university students as well. Although part of the drop in enrollment rates is a "demographic" effect—i.e., it is due to the fact that population growth rates have declined sharply and there are therefore relatively fewer school-age children—it nonetheless does show that society is by and large "producing" relatively fewer primary, high school, and university students and graduates, which clearly bodes ill for the future.

Is the physical economic collapse reversible?

The answer is yes, but only if Mexico changes course radically, and immediately. Despite 13 years of systematic destruction, there are still sufficient human and capital resources to turn the situation around—especially if done in a coordinated way with other Ibero-American nations.

But there is no time to spare. At a certain point, physical economic devolution becomes a Frankenstein monster that cannot be stopped, even by those who unleashed it. This is, unhappily, the case for many nations in Africa today, which have been pushed into the abyss. And it was done by the very international oligarchy that would now do the same to Mexico.

Pope in Asia: target of Prince Philip's gamekeepers

by Lydia Cherry

The Roman Catholic Church must be prepared for the task of evangelizing Asia in the 21st century, and the Christians in the Philippines will play a crucial role in that process, Pope John Paul II told an audience of 4 million in Manila on Jan. 15. The crowd that gathered for mass to close World Youth Day was the largest crowd of the pope's 17-year papacy, larger even than on his return to his native Poland for the first time as pontiff in 1979. The largely Roman Catholic Philippines was the first stop of an Asian tour that also included Papua New Guinea, Australia, and Sri Lanka.

Addressing, in particular, the youth gathered in the enormous crowd, Pope John Paul insisted that they face "the challenge of having a purpose, a destiny and of striving for it." He urged them to reject the "false teachers" in science, culture, and the media, who try to convince them there is no definite truth and no sure path to happiness. He continued that they must "be a sign of hope for the church, for your countries and all humanity. Your light must spread out from Manila to the farthest corners of the world."

Making light of the British-launched campaign to discredit him as old and sick, the pope waved his cane, at the Jan. 14 prayer vigil for World Youth Day, at the youth stretched far beyond his sight. Later he conducted a song with this silver-handled cane, then began twirling it, to the delight of the teenagers.

In Australia, the pope called upon his audience to take responsibility for relieving poverty and disease in Asia as a whole. "Your advantages and resouces put you in a position of responsibility in Oceania and the Pacific region, and toward the vast and quickly developing continent of Asia. With God's help, you must continue to work with others to advance the cause of peace, foster integral human development, and relieve, as far as possible, the oppression of poverty, hunger, and disease."

Assassination threats: Cui bono?

Beginning in the days leading up to the tour of Asia, there have been almost non-stop threats against the life of the pontiff. (The only parallel would be the number of threats against President Clinton in recent months.) The most serious of these threats involved Manila police uncovering an alleged plot against the pontiff, when they raided a Manila apartment on Jan. 6, and seized maps of the routes the pope was to take during his tour around the city. Also taken from the apartment were timing devices, computers, Bibles, crucifixes, buttons with the papal insignia, and pictures of the pope, according to a Manila police spokesman. After discussions among the intelligence services of several countries, it was determined that some of the alleged "Islamic fundamentalist leaders" of the plot against the pope were also wanted in connection with the Feb. 26 bombing of New York's World Trade Center.

In the World Trade Center bombing, questions were raised about the close relationship of the FBI to some of the alleged terrorists, prior to the bombing. Other Muslim "fundamentalist" plots, after investigation, have turned out to be covertly steered by British intelligence. One of the terrorists claimed to now be in custody in the Philippines, according to sources, is Ahmed Salem, who was originally on the payroll of Graham Knowles, a British New York City-based "private security consultant." Salem was apparently fired by the FBI in late 1992.

Somewhat confusing were news reports that the Vatican had furnished the Filipino government with a list of 109 names of foreigners who might try to enter the Philippines to disrupt the trip, and that the Philippines police were following up on the Vatican leads. However, Catholic News Service quoted papal spokesman Joaquin Navarro-Valls, vigorously denying these reports. President Fidel Ramos seemed to indicate, in discussions with press, that the Philippines

Pope John Paul II (left) with German President Richard von Weizsäcker, during a visit to Germany in 1987. ***During his current Asian tour, the pope has been subjected to non-stop threats against his life.***

was in close contact with intelligence services of other countries and that they were of help in constructing this terrorist list.

In his 1994 book, *Crossing the Threshold of Hope,* the pope makes clear that his strategy is to appeal to the mind and conscience of the individual, an approach which the oligarchs loathe and fear.

There is a further, strategic dimension to the pope's diplomacy. He is focussed on Christendom's entrance into its third millennium, and part of his evangelization drive concerns righting the wrongs of the past. For example, in an apostolic letter released by the Vatican on Nov. 14, he proposed that the international debt burden on poorer countries be either cancelled or greatly reduced in the year 2000. In recent months, the pontiff has twice referred to the right of poor countries to have access to nuclear power.

Since May 1990, John Paul II has been a public target of Prince Philip, Duke of Edinburgh, because of the pope's rejection of the malthusian dogma pushed by the Prince's World Wide Fund for Nature. The pope's global organizing against the United Nations depopulation conference in Cairo last September heightened the eagerness of circles headed by the prince to eliminate the pope from the scene. This news service has shown that the World Wide Fund for Nature overlaps with the assassination capabilities of British intelligence, such as the Permindex organization (see *EIR,* Dec. 9, 1994, "Permindex Ties Revealed to JFK Murder, 1001 Club").

Biggest hot-spot: Sri Lanka

The real hot-spot, however, was the shortest and last leg of the trip, to Sri Lanka. As the pontiff arrived there on Jan. 20, great controversy surrounded his presence. Sri Lanka is home to a major assassination capability which operates with impunity. In the past few years, a Sri Lankan prime minister and a defense minister were assassinated. In November, the presidential candidate of a major party was murdered in a terror bombing. Investigation into that killing has gone nowhere.

In addition, it is believed that the murderers of India's former Prime Minister Rajiv Gandhi, who was killed in May 1991, were based in Sri Lanka. The separatist Tamil Tigers, who have been engaged in a terror war against the central government for 20 years, have been blamed for Gandhi's murder—an assassination that benefitted the war against the Southern Hemisphere being conducted during the administrations of George Bush and Margaret Thatcher.

The pope arrived in Sri Lanka just at the point that the Tamil Tigers were being forced into another round of negotiations with the government. The previous week, a Tamil leader who favored the negotiations was murdered.

The atmosphere in Sri Lanka has also been stirred up against John Paul II. The Buddhist Sangha—the national leadership body of Buddhists and major ideological opponent of the Hindu Tamils—warned on Dec. 21 that they would boycott their meeting with him, unless he apologized for comments on Buddhism made in *Crossing the Threshold of Hope*. The Buddhist priests described the comments as "mischievous, misleading, and maliciously misinterpreted." Then on Dec. 31, a conference of the Federation of Buddhist Organizations resolved that they were not satisfied with an apology from the Vatican, and that his visit would be an act of aggression if he did not withdraw his remarks. The Sri Lankan Buddhists have multiple ties to the World Wide Fund for Nature, which notes in its propaganda that in Sri Lanka, Buddhist monks "act as natural gamekeepers."

Italy becomes a test tube for 'Asiatic authoritarian' model

by Claudio Celani

Italy's 54th postwar government, sworn in on Jan. 17, is a model for what Ralf Dahrendorf, member of the Trilateral Commission and spokesman for the London-based international oligarchy, recently characterized as a transformation of western democratic systems according to "Asiatic authoritarian values." Led by Lamberto Dini, a former executive director of the International Monetary Fund, the new Italian government is exclusively composed of technocrats, and contains no elected officials. The foreign minister is Susanna Agnelli, sister of FIAT owner Giovanni Agnelli and, like her brother, a longstanding member of the oligarchical 1001 Club. That guarantees that Italy's foreign policy will be directly run by London's Foreign Office.

The Dini government is the result of a decision made by President Oscar Luigi Scalfaro. According to the Italian Constitution, the President appoints the head of government, according to the strength of the various factions in the Parliament. The head of government then chooses his ministers. But Scalfaro, twisting the Constitution, insisted that the government be run by a technocrat, and that no member of Parliament or of the previous Berlusconi government should be a member of the new cabinet. The cabinet ministers do not reflect the influence of political constituencies, but rather of technocratic "experts," on Benito Mussolini's corporatist model. Defense went to a military man, Interior to a magistrate, Justice to a former prosecutor, Health to a hospital manager, Budget to a banker. Dini will keep the Treasury portfolio which he held under the government of Berlusconi.

The Dini government is thus programmed to be exactly the sort of British-imposed regime that *EIR* has warned of, since we exposed a secret meeting that took place on June 2, 1992 aboard the British royal yacht *Britannia*, off the coast of Italy, involving the British and Italian financial elites (see *EIR*, Feb. 12, 1993, "The Anglo-American Strategy Behind Italy's Privatization"). *EIR*'s exposé became the subject of widespread press coverage in Italy, and a parliamentary question was put to the government on the issue in the spring of 1993 by Antonio Parlato, a parliamentarian who was later to become deputy minister for the budget in the Berlusconi government. This could give some idea of why the British have now ruled out any participation in the Dini government by members of the previous administration.

Scalfaro's main concern is that the new government be accepted by "international markets." Indeed, the markets (i.e., the City of London) liked Dini so much that the Italian lira went up a few points after the new premier announced his program, which consists of a \$9.24-12.32 billion supplementary budget cut, a sweeping reform of the pension system (privatization), anti-trust legislation, and a reform of the local electoral system. The rise, however, lasted only a few hours; the currency dropped again when two appointed ministers resigned before they were sworn in.

Dini is supposed to resign as well in a few months, as soon as his program is implemented, to allow for early political elections, but at the moment of writing it is doubtful whether he even will win a confidence vote in the Parliament, scheduled for Jan. 24. Dini has the support of the former Communist Party (PDS) and other left-liberal groupings, plus the Popular Party (PPI, formerly the Christian Democracy) and the Northern League, whereas the conservative bloc, composed of Berlusconi's Forza Italia (Go, Italy!), National Alliance, and the tiny Centrist Christian Democrats (CCD), will vote against it. Also the orthodox communists (Rifondazione Comunista) will vote against it. The decisive factor is a group of Northern League representatives who have not accepted the "betrayal" of the old government coalition by Northern League leader Umberto Bossi, and will not vote for the new government.

The Di Pietro card

If Dini falls, the oligarchy is lining up new options, including a period of chaos and destabilization. New protagonists of the political scene are warming up, such as former prosecutor Antonio Di Pietro, to carry out the next phase toward the "Asiatic authoritarian model." Di Pietro, who in the eyes of manipulated public opinion has become a hero, has in reality been one of the main culprits in the destruction of national institutions. He has led the Milan "Clean Hands" investigation that allegedly "discovered" political corruption and successfully fought it. As a result, Di Pietro and his team destroyed an entire political system, and corruption is still there. With the help of the media, they established a system by which any politician who is not in line with the oligarchy goes to jail.

In December, Di Pietro resigned from his post as prosecutor in Milan, amid speculation that he would seek political office. Meanwhile, he started to teach at the Carlo Cattaneo Free University in Varese, named after the 19th-century British agent who pushed Adam Smith's dogmas. Today, Cattaneo's "federalist" proposals are being used to push separatist projects. The Cattaneo University was founded four years ago by a group of Varese businessmen who are supporters of the Northern League. Demonstrating the farcical nature of his "anti-corruption crusade," as Di Pietro was making public his new job at Cattaneo University, the press revealed that his new boss is under investigation for giving bribes to political parties as recently as two years ago!

Cattaneo University is a nest of radical free-market and irrationalist theories. As its founders explain, it has been conceived as a training (brainwashing) center for industry leaders, especially from small and medium-sized companies. Among the teachers is Geminello Alvi, a former official at the Bank for International Settlements and follower of the anthroposophist Rudolf Steiner. Also teaching at the university in Varese is Mario Monti, European Community commissioner and radical free-marketeer. Monti stated, in an interview with *Corriere della Sera* on Nov. 13, 1994, that the destruction of Italy's political parties was provoked, more than by corruption, by "the opening of financial borders, and therefore free circulation of capital which, since April 1990, has opened a competition between Italian Treasury bonds and all bonds in the rest of the world." Liberalization of financial markets, stated Monti, "has taken away from the Treasury [i.e., the government] its financial monopoly." "I have always insisted," Monti added, "that [financial liberalization] was the crowbar . . . to eliminate an artificial lung of the public sector."

But the person that best shows what hides behind Di Pietro and the Cattaneo University is former President Francesco Cossiga. When the university was inaugurated, on Nov. 21, 1991, Cossiga personally brought his sponsorship as President of the Republic. It is necessary to look at Cossiga, to understand who Di Pietro is.

From the beginning of his career, Di Pietro has acted under Cossiga's protection. As a policeman, Di Pietro was one of the "most promising" members of the special antiterrorist squad led by Carabinieri Gen. Carlo Alberto Dalla Chiesa, according to a report by the latter's mother-in-law. Dalla Chiesa gained fame as the man who destroyed the Red Brigades, but he did it after they had become "useless," that is, after they kidnapped and killed Aldo Moro in 1978. The reason for that became clear when the famous membership list of the secret Propaganda-2 freemasonic lodge was published, in 1981: Dalla Chiesa was a member of the P-2, together with the chiefs of all the secret services and the police during the Moro kidnapping. Cossiga was interior minister at that time, coordinator of all the investigative bodies, during Moro's captivity and murder. Afterward, when the P-2 scandal broke out, Cossiga prevented the full truth from coming out. He did the same later, when the existence of another destabilization network, the Gladio secret organization, was revealed by Premier Giulio Andreotti.

The Via Poma police precinct, where Di Pietro's career started, in 1981 in Milan, has always hosted the local secret service section (SISDE). Last year, the Florence prosecutors opened an investigation into a Mafia operation in Milan which had connections to several of Di Pietro's former colleagues.

Di Pietro's career as a prosecutor began in Bergamo. When he moved to Milan, Cossiga was already President of the Republic. In 1992, Cossiga started what intelligence operator Angelo Codevilla, in a *Foreign Affairs* article that same year, described as the beginning of the demolition of Italian institutions. Cossiga started a campaign against the political parties, accusing them of being "Cosa Nostra," i.e., like the Mafia. Cossiga also attacked the magistrates, who went on strike in protest. In Milan, the only magistrate who refused to join the strike was Di Pietro, who in the meantime was preparing his "anti-corruption" investigation.

According to Danilo Taino of *Corriere della Sera,* Di Pietro has been helped in his investigations by Kroll Associates, known as "the Wall Street CIA."

In 1993, when all government political parties had been demolished and Parliament had virtually ceased to exist, Di Pietro published a book on the Constitution with an introduction by Cossiga, who predicted a great political future for him.

London's man, Cossiga

Francesco Cossiga has a direct connection to the City of London. There is no holiday which Cossiga does not spend in Great Britain. Especially during a government crisis, he loves to spend time in London. When Margaret Thatcher came to Italy last year to present her book, she was advised not to do it in Rome, where many people did not like what she had written about Italy and Italians. She held a conference in Milan instead: On the podium to her right was Cossiga, to her left Mario Monti.

During the last government crisis, Cossiga was recalled from London by Scalfaro and assigned to explore secretly whether he could form a government. Cossiga accepted, and started consultations from his base at Rome's Hotel d'Inghilterra (England Hotel). Eventually he dropped the idea, because he could not get support from Berlusconi's party. He has said that he will not "hold back" if the nation falls into a severe crisis, "blood flows on the stairs of Parliament," and a figure "above the parties" is required to run the country. There is no doubt that, in London, somebody sees a Cossiga-Di Pietro-Monti formula as a useful replay of the Danton-Robespierre-Necker combination which destroyed the French nation in 1789.

Yeltsin between two fires

St. Petersburg correspondent Roman Bessonov looks at the political fallout from Russia's brutal war in Chechnya.

A successful arsonist sets his fire from two sides. This technique, refined by the Venetians, was used in Russia by Boris Yeltsin as Mikhail Gorbachov's rival for power at the beginning of this decade, when both western-oriented liberals and Slavophile nationalists demanded that Russia separate itself from the Soviet Union. Now the boomerang has come back: The same game is being played against Yeltsin himself, by an array of ambitious politicians who are eager to replace him.

Yeltsin's own desperate gamble of waging a grisly, wintertime war in breakaway Chechnya has provided new opportunities to undermine the Russian President's authority. Several powerful banks with political connections have moved to shape the widespread outrage against the war into an antiwar opposition movement controlled by them. One such institution is the *Most* (Bridge) banking group, which has ties to "liberal" former Prime Minister Yegor Gaidar, economist-turned-politician Grigori Yavlinsky of the Yabloko group in parliament, the Russian Army's currently most popular officer Gen. Aleksandr Lebed, and other politicians.

At the same time, and from the same quarters, there are attempts to attach to Yeltsin "friends," who would make the President look repulsive in the eyes of the majority of the intelligentsia and even the Army. Here, the *dramatis personae* are familiar from the terrible events of October 1993; when the elected parliament of that time, the Supreme Soviet of the Russian Federation, refused to obey Yeltsin's order to disband, it was shelled out of existence by heavy artillery.

Barkashov's provocateurs

Soon after that Moscow tragedy, General Lebed tried to justify why he and other generals failed to support Aleksandr Rutskoy, the Russian vice president (also a general) who sided with the Supreme Soviet, even though Rutskoy was acting according to the Constitution. "Why, there were fascists near the House of the Parliament!" Lebed explained.

In fact, there were about 200 youths with swastikas on their sleeves in the much bigger crowd that surrounded the besieged Parliament building for more than a week. On Oct. 3, a day of violent confrontations before the shelling on Oct. 4, they were the first to storm into the building of the Moscow Mayoralty. The next day, most of them easily slipped away.

These fellows represented *Russkoye Natsionalnoye Yedinstvo* (Russian National Unity), a small group of armed youth led by one Aleksandr Barkashov. They were schooled in quasi-pagan rituals, then "christened," but in a peculiar way: Their confessor was Lazar of Kashira, the false archbishop of the Underground Orthodox Church, a thief and previously one of the founders of the so-called Virgin Maria Church. Lazar taught Barkashov's recruits that Russia should be liberated from "Jewish and American dictatorship." Barkashov told them they would soon be needed to save Russia and establish the "Russian order" throughout the Russian Federation.

In the summer of 1992, Barkashov told his friends that a high-ranking KGB general was destined to take power in the country. This person, he claimed, had already asked Barkashov for assistance and promised him a high rank. During the siege of the parliament in 1993, such a man could be seen in the building from where he gave orders to Barkashov and his boys. He was Gen. Filipp Bobkov, deputy chairman of the KGB till August 1991. Now he was an aide to Speaker of the Supreme Soviet Ruslan Khasbulatov (and, remarkably, was himself elected to the Supreme Soviet from a district in Khasbulatov's native Chechnya).

But General Bobkov was developing another career, in parallel—as chief of the analytical center of *Most* Bank! When the crowd surged into the Moscow Mayoralty building on Oct. 3, 1993, Barkashov's boys kept them from getting to the upper stories, where the *Most* offices were located.

Informed Moscow sources consider Filipp Bobkov to be the real "brain" of the political group around *Most*'s chairman Pavel Gusinsky, and Moscow Mayor Yuri Luzhkov. It would appear that the general exploited the conflict between Yeltsin and Khasbulatov, as well as the rivalry between banks patronized by Khasbulatov and those close to Luzhkov, to provoke those bloody clashes that cost Yeltsin at least half his popularity and, moreover, left the relationships between the banking system and the top state officials free of any parliamentary supervision for a certain time. Who has counted how much money Gaidar received from the banks on Oct. 3 for his "struggle against fascists," and how this money was spent?

It is reported that General Bobkov also controls the "antifascist" paramilitary groups, comprised in part of veterans of the War in Afghanistan and young people mostly of Jewish origin. These groups were formed in 1991, after the idea of setting up a "Russian National Guard"—put forward by a radical liberal, proctologist Vladimir Bokser—was rejected by the President's apparat. Instead, these irregular formations came to be used as bodyguards for "democratic" businessmen. The ideological base was developed by the Moscow Anti-Fascist Center, the Liberal Club, and similar organizations.

In the autumn crisis of 1993, the artificially hatched "fascists" and "anti-fascists" were used to compromise the parliament. The "fascists" formed a guard for opposition rallies and for the parliament itself, thus "proving" (especially to foreigners) that its members were real and dangerous "communo-fascists." "Anti-fascists" such as Aleksandr Osovtsov specialized in provoking fights in order to get beaten and become "a victim of the fascists," meaning the supporters of the parliament.

In November 1994, about a month before Russia's military move into Chechnya, the "enemy image" changed. This was just after the strange murder of journalist Dmitri Kholodov, killed by a bomb while he was investigating corruption in the military. Now the "anti-fascists" started cursing Yeltsin, whom they suddenly found to be "totalitarian." (These same "anti-fascists" had been the loudest back in October 1993, calling for shooting the members of parliament and quickly adopting the rather bonapartist new Constitution sought by Yeltsin and welcomed by radical nationalist Vladimir Zhirinovsky.)

What about Barkashov's boys? They are now supporting Yeltsin and his defense minister, Pavel Grachov, in the invasion of Chechnya!

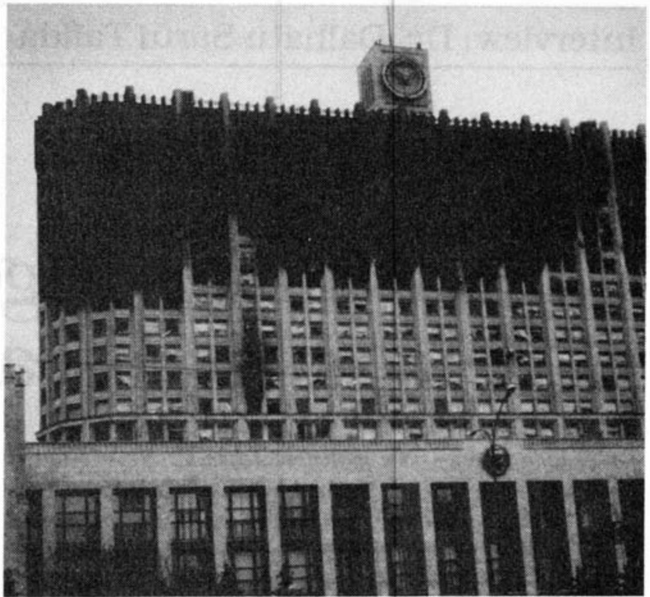
High Command compromise?

Will there be a new "State Committee for the Emergency," another coup? Will we see tanks shooting at the Kremlin? Until Jan. 10 it seemed quite possible. The strains of Tchaikovsky that accompanied the putschists in 1991 seemed to sound in the air. It looked as if Yeltsin's opponents were just waiting for his next misstep.

But on Jan. 10, ex-First Vice Premier Sergei Shakhray and then, quite unexpectedly, State Duma Speaker Ivan Rybkin, a socialist, dropped their critical tones. They started to call Chechen leader Dzhokhar Dudayev a gangster and to swear by the sovereignty of Russia, including over Chechnya. The mass media also significantly shifted their anti-war tones.

The reason for these about-faces seemed to become clear the next day, when it was announced that the General Staff of the Russian Army would submit to the President himself, not to the defense minister. Chief of Staff General Kolesnikov and Grachov were to become more or less equal in their political weight. It looked as if a compromise had been achieved in the military elite.

Pavel Grachov's agreeing to such a change, downgrading his authority in the military hierarchy, may mean that the accusations that he sold half the Russian weapons in Chechnya to Dudayev have serious grounds.



The Russian Parliament after it was shelled out of existence in October 1993. Yeltsin's game then, is now being played against him.

At the same time, the shift was linked to the efforts of Prime Minister Viktor Chernomyrdin, whose position has become stronger again. Some analysts see this fact in light of the decreasing prestige of the *Most* Bank group, as opposed to financial interests with which Chernomyrdin is tied.

After Jan. 10 the tension in the political struggle seemed at last to calm down. But Rybkin was trying so hard to demonstrate that he stands for a strong and intact Russia, that he lit his own match from the "fascist" side. The speaker solemnly declared that anybody who behaves like Chechnya—major areas in the interior such as Tatarstan or the Ryazan region, for instance—would meet the same fate as Chechnya. Tatarstan officials immediately delivered a protest, followed by criticism of the federal authorities for their inability to spend money rationally. . . .

Rybkin's shouting and Shakhray's murmuring about the territorial integrity of Russia, however, does not ensure that the country will be really safe and united in the nearest future. For these two men, as they try to stay on the "winning" team, it is beneficial to strike a centrist posture. Former Security Council head Yuri Skokov, however, evidently sees an opening in the power struggle by playing on the ambitions of Russia's regions. Recently a meeting of Skokov's committee, Concordance for Russia, included a handful of regional leaders—but those from the key regions of Karelia and Tatarstan were among them.

Like Yeltsin, the whole Russian leadership remains between two fires and will probably have to make many new maneuvers during this winter and spring.

Interview: Dr. Dalhatu Sarui Tafida

IMF sabotages Nigeria's fight against disease

Dr. Tafida is Nigeria's minister of health. He previously served as commissioner for health in Kaduna State, as well as commissioner for agriculture and for education. He has been active in Nigerian politics, participating in the 1989 Constituent Assembly, running for the governorship of Kaduna, and for the presidency. He was interviewed by Uwe Friesecke and Lawrence Freeman on Oct. 4, 1994 in Lagos.

EIR: Concerning your main area of responsibility, could you sketch out for us what your main concerns are, what the health situation in the country is, where your main efforts are, and where you see the biggest problems?

Tafida: . . . In most developing countries, generally, the percentage of the national budget spent on health care is negligible. The World Health Organization stipulates that at least 5% should be spent on health. In Nigeria, even though we thought we did well this year by getting a little bit over 3% of the national budget, we believe that much more can be done, so as to hit the minimum percentage stipulated by the World Health Organization (WHO).

The main thrust of this administration, is in two or three key areas. First, is the area of primary health care and disease control. That is, the provision of preventive services. We believe that Nigeria is not a rich country. This is why we go by the dictum that prevention is better than cure. We are intensifying our efforts toward an expanded program of immunization, whereby we locally produce and purchase vaccines for killer diseases among women and children: polio, tetanus, diphtheria, whooping cough, tuberculosis, and yellow fever. We believe that if you can prevent these diseases among children, and the women carrying these babies, we can prevent ill health from occurring at a later stage, by a minimum of 50-60%. This is why we are spending a lot of money. This year alone, we spent $78 million on vaccines. We buy them through Unicef, because we get them cheaper, and they are delivered when we need them.

So, we are placing a lot of emphasis on that.

Also, we are placing emphasis on certain diseases that are controllable. Diseases such as guinea worm, which has struck farmers in particular. Four or five years ago, there was a general survey in this country, and there were nearly 700,000 cases. Today, in a survey at the end of last year, there were 11,000 cases. We achieved that either through direct intervention, or through the provision of clean, potable water in villages.

We are doing very well in the area of control of leprosy and tuberculosis. Cases of leprosy in the country have been drastically reduced, from about 300,000 cases some three or four years ago, to an almost negligible number today. In fact, there were attempts by the WHO, and the international organizations that certify Nigeria, to give Nigeria a certificate stating that we had achieved complete eradication, according to their own definition. Where you have one case in 10,000, you can consider the disease completely eradicated. But we refused. We said that we do not want to be given any certificate, because we want to continue to fight the disease until it is *actually* completely eradicated.

We were doing quite a lot on tuberculosis. But because of the appearance of AIDS—AIDS has tended to sensitize and lower the immune system of an individual suffering from tuberculosis, which makes it more difficult to treat the tuberculosis—we are beginning to see more cases of tuberculosis. But with our friends, our partners abroad, we are now mapping out a strategy that will fight the disease.

We are also investing massively in the area of drug production. We believe that whatever we do, unless we are self-reliant in drug production, all our efforts could turn to naught. This is why we are now in the process of constructing two manufacturing outfits, here in Lagos, and, alternately, in Abuja. Half of the outfit in Lagos is almost ready for production. It will be mostly to produce vaccines—we hope to produce 5 million doses of vaccines. We are also encouraging the private sector to become drug producers. Quite a number are in there. But generally, Nigerians prefer to go into quick money-making ventures, and it is not easy to convince them to invest and to wait for years.

EIR: Not just Nigerians.

A question on primary health care and vaccinations: Do you feel you are spending enough money on this? Is there a shortage of money? What percentage of women and young children are being vaccinated?

Tafida: In 1986, there was a general survey. Less than 10% of the population of women and children were being vaccinated. Then, there was a concerted effort. A lot of financial and other resources were spent. By 1990, about 80% of this population was covered. Nigeria at that time was considered to be possibly the only country in Africa that was achieving that feat, that percentage of coverage. But because of our economic downturn, this percentage went down, and we are down to perhaps 40%. That is why, when this administration came in, there has been an effort to provide more resources. The international organizations—Unicef, U.S. Agency for International Development, WHO, the Ford Foundation—some are willing to come and to assist, and to produce a working plan. We are just about to disburse the funds, and also to sensitize the executors at the local level. Our intention is to raise the level, within six months, to about 60%, and ultimately, within a year or two, to the previous level of about 80%.

EIR: You mentioned the economic crisis. Do you see a relationship between the Structural Adjustment Programs [SAPs] that were forced on Nigeria, and the situation in the health area? Have there been pressures to lower expenditures in this field, as we see, for example, in Zimbabwe and other cases, where the International Monetary Fund literally says: Don't spend money there; pay the debt.

Tafida: Definitely. I have never been a supporter of the SAPs. I thought SAP was a way of somehow controlling our economy here. What SAP has done to the health sector, is that it has reduced the purchasing power of the naira [national currency]. Maybe three or four years ago, if you were given $1 billion, you would say, "Oh, we got a lot of money." That would purchase quite a lot. Maybe $1 would be 4-5 naira, three or four years ago. One day it was at 9, and when we woke up in the morning, it became 18, just like that! In seven years, the value of the naira has been mutilated, making it only one-twentieth of what it was.

Our budget in health has not gone up correspondingly. Indirectly, SAP has affected us, because we are not getting what we were before. Because we are not local producers of finished goods, we have to import, and for this, we need foreign money, which means that SAP has affected us drastically.

EIR: What about the situation with malaria? We have clearly identified a tendency for recurrence of diseases in which our aim, originally, during the 1960s, was complete eradication.

Tafida: Malaria is still with us. It has defied eradication, and we are still fighting it. Malaria is not a disease which you can control in your own country, if your neighbors are not doing anything to fight it. Your neighbors, in fact the whole of Africa, have to do exactly as you do in your country, in the battle against mosquitos. The organisms that transmit malaria can be carried across borders. So it requires a concerted effort by everybody in the continent of Africa.

But we are doing quite a lot, within the limits of our resources, and we have not really gone down from the level of control that we had before.

EIR: One of the things that the current government, under Gen. Sani Abacha, did, was to reverse the SAP. Do you think that the government is moving in the right direction, in terms of health policy?

Tafida: I think so. There has not been a complete reversal. People say that this government "reversed" the situation of SAP. We have not really gone for a 100% reversal. We have just touched some portions of SAP, such as interest rates, foreign exchange rates, and so on. I think it is a step in the right direction. What needs to be done for this to be completely successful, is for the disbursal of the meager foreign exchange that is available to the government, to the correct sector, such as the manufacturing sector, such as drug manufacturing, and the food sector.

EIR: In the press in the West, there are tremendous attacks on Nigeria. It is said that you have a military run by northerners, who are oppressing the population, denying people human rights. I do not know what part of Nigeria you come from, but could you respond to these charges? And do you support this government's efforts to provide a transition to democracy and economic development?

Tafida: I don't agree with what the western press or western people say. Abacha is the head of state; anybody who knows Abacha, knows that he is not an ambitious person. He had been in government with the former President [Gen. Ibrahim Babangida] from the beginning until the end of that regime. He was the least controversial of the military people in government then. He acted as a bridge between the civilians that were taking over, the interim national government, and the military.

Because there is so much confusion, let me explain: 1) Those people who were propagating the line that the northerners were the ones who were doing everything, are the same people who took their son, who was then the head of government, to court, and demanded that the court declare his government illegal. Shonekan was the head of the interim national government; he was from the west of the country, the Yorubas. The Yorubas took that government to court, to declare it illegal. 2) The same government resigned on its own, and invited Abacha to come and take over. There was no broadcast of a coup. Normally when you have a coup, you make a broadcast, you spell out your program, and the reason for the takeover. Shonekan, the head of the interim national government, asked Abacha to take over, which he did. Abacha must have been requested to take over in a hurry, because he did not have a program, a plan.

So when he took over, he looked around, and invited everybody, from west to east, everywhere in the country, to come and assist him in running the government. He made sure that in the two highest possible levels of the government, at that time—the Provisional Ruling Council and the Federal Executive Council—civilians were involved. In fact, in the Federal Executive Council, out of 32 people, there were only three military—he himself, the number-two man, and the minister of federal capital territory. All the rest, 29 of us, were civilians.

You can see that Abacha did not intend to take over. When he took over, he called people in to form a national government. There were two parties invited, people from both sides, everybody was invited. There was no major tribe that was not there. Nobody had plans to take over by military force. If that had occurred, you would not see civilians there. I, as a civilian minister, have had full freedom to execute plans, within the limits of our resources. There has been no interference. And it is true also with the other civilian ministers. Abacha never interfered. Every state in the federation—30 of them—was represented.

Chief Abiola, the man who was involved so much in the controversy, actually invited Abacha to take over! They were friends. He said, please come and take over, to save this country. Immediately, Abacha took over. It was televised. He visited, was the first caller at this barrack in Lagos. You saw them clapping, like friends who had not met for 20 years; they hugged each other—Abiola and Abacha. If the prophets come again—Mohammed, Jesus—the Nigerians would attack them and say they are wrong. This is what the situation is in Nigeria today. Even if it is their own tribe, a group in the tribe would gang up and say, this man is not doing what we want him to do.

EIR: You say the general invited all the civilians with expertise in different areas to help him govern the country. Recently there have been changes in the military leadership of the country, and the Provisional Ruling Council has been enlarged. The story that the British press in particular presented, is that this has essentially kicked the civilians out of real decision-making positions, that they have no vote, and, therefore, reality is the tightening grip of the military junta. How would you see that?

Tafida: I don't see it that way. One, there is still the Federal Executive Council. The change that took place was in the Provisional Ruling Council, and I think we Nigerians should be held responsible for that. There was so much confusion, so much disorder in this country, to the extent that every trade union just decided to declare a dispute, a nonexistent dispute, and the country was nearly paralyzed—in the oil industry, the banking industry, and so on. At that time, we, the civilians, were everywhere. We were in the Provisional Ruling Council, we were in the Federal Executive Council. And I thought that if I had the responsibility that Abacha had, I would do the same. I would make sure I brought in a structure that would enable us to be solid, whenever there is confusion, unwarranted crises, unwarranted strikes, so that we can deal with the situation. It is not that Abacha wants to remain in office much longer than necessary. It is just to safeguard the security and the unity of this country.

Are we pretending that this is not a military regime? It *is* a military regime. But the military regime, we believe, should behave like a military regime. If today you bring everybody other than Abacha into the government and into the Provisional Ruling Council, it would still be a military regime, but it would be a weak military regime, because of Abacha's nature. In fact, Abacha behaves much more democratically than the so-called politicians, who regard themselves as democratic. Abacha would listen to you, and give you every opportunity. I support this, so that we can have a solid base, more stability, so that finally, when the government is handed over to the civilians, it will be a more durable structure.

The country had become a no-man's land. People were just doing what they liked. But with this restructuring, I think that everybody is now happy. That is why some of you are here. If you had been here a month ago or two months ago, it was hell.

EIR: How confident are you that the unity which General Abacha obviously tried to practice, by bringing in ministers from the southwest, from the east, from the north, can be kept? The line from the British press, from the American press, is that some of the people who are not from the north, like the second-in-command or the minister of transportation, are relatively isolated figureheads, and that this is not serious.

Tafida: You can go and ask them, and they will tell you the truth. I know the minister of transport very well, he is very forthright, he will tell you exactly what is on his mind. There was a call for him to leave, and he came out publicly and said he was *not* leaving. The other Yorubas in the cabinet were asked to leave by a gang of their tribesmen, and they came out publicly to say, "No." CNN [Cable News Network] and the press are trying to mold the opinion of everybody in the world, whether it is true or not.

Yesterday, I saw some rogues, some vandals breaking into an office. They took the side of the American government, and the reporters said, "They are not looting, they were just so happy, that they were doing this." Now, if it had been the other way around, they would paint it as looting. We know about all these gimmicks.

They can say whatever they like, but we will have our way, because this is our own country. It is our own country; if we fail, we fail ourselves. It is our people. I don't think anybody loves our own people more than we love them.

 by Rainer Apel

Some genies are out of the bottle

"Hints" at new investigation of Barschel's death point to East-West arms deals in the 1980s.

The first gathering on Jan. 13 in the northern city of Lübeck, of senior intelligence, forensic, and political experts on the resumed investigation of the death of Christian Democrat Uwe Barschel, who was killed in Geneva in October 1987, did not yield spectacular results. Judge Heinrich Wille, who is in charge of the new investigation, said, though, that "new hints, more than I originally expected, were put on the table that will help the investigators." They were vaguely described as having to do with "East-West arms affairs in the 1980s."

The investigators in Lübeck have been provided with formerly secret western intelligence protocols of post-1990 discussions with former East German intelligence officers, who hinted about Barschel's involvement in top-secret, arms-related deals across the Iron Curtain during the early 1980s. At least three of these sources, among them a onetime close aide to foreign intelligence head Markus Wolf, said that they know Barschel was killed because he didn't want to go along with some deals that were rated "highly important" at that time.

Unfortunately, some of the top East German officials who knew more about these affairs cannot be interrogated. Arthur Wenzel, who handled the Rostock arms dealership of the IMES operation that had secret business with George Bush's operative Oliver North, supposedly hung himself in a prison in 1991. Michael Wischnewski, who organized many of the secret money deals with western agencies, escaped trial in Germany, went to Israel in late 1994, and acquired Israeli citizenship with the help of some friends of Ariel Sharon, which keeps him safe from German law for the time being.

Further, Bernd Barschel, who knew more, died in October 1990. Bernd worked at the East German University of Jena and, through contacts in the intelligence and science community, was involved in an affair on April 26, 1984. On that day, Uwe Barschel met with "somebody" in the management of the Zeiss Jena optical electronics plant for two hours (as his driver testified years later), and afterwards had a "private" encounter with his cousin Bernd. Bernd had close contacts with the management at Zeiss, and is said to have played a role in this peculiar arrangement.

The visit of a senior conservative West German politician to that Jena plant, which produced key optical electronic components for U.S.S.R. military systems, including Moscow's missile defense project, was even then a big deal. The fact that Zeiss Jena soon after presented a new laser device to improve tank firepower, which in many ways resembled a system produced earlier in the West by the Wild-Leitz firm, also raised eyebrows. The fact that a brother of Uwe Barschel, Eike, was a top manager at the Wild-Leitz Geneva branch is also interesting, especially because Uwe wanted to see him in Geneva on the same weekend that he was killed.

After the collapse of the East German regime, Bernd was able to look at declassified top-secret files at an archive in Gera (not far from Jena) in March 1990. A friend of his recalls that he told him that he had found "something big"; he "would never have thought something like that possible. Certain things will be unravelled, now." He added, though, that it would be "too dangerous" to talk about it, for the time being.

When Germany was reunified on Oct. 3, 1990, Bernd is said to have felt "safe enough" to speak about his findings in Gera. But on Oct. 14, he suddenly died from a "stroke."

What did he find? Was it the same kind of sensitive material that Uwe Barschel is said to have discovered shortly before his death?

There are hints that what went on between Zeiss Jena and Wild-Leitz, in violation of the western embargo of high-technology transfers to the East, proceeded with the full knowledge of intelligence agencies in East and West. Somebody in the West decided to provide the East Germans with a much-desired military technology in return for some "courtesy." The East Germans were also supplied with some sophisticated weapons by Royal Ordnance, a weapons manufacturer in Britain and supplier of the British Armed Forces and intelligence services.

For the East Germans, these secret deals were handled by Alexander Schalck-Golodkowski, who, at the time Uwe Barschel traveled to Jena, was negotiating with envoys of the West German government for a "visibly reduced Bonn role" in the American Strategic Defense Initiative program.

Strangely enough, all of the files that West Germany had on this period have disappeared. At least this is what the members of a special Bonn parliamentary committee investigating the activities of Schalck-Golodkowski were told in 1993. But there is enough evidence left to keep the secret East-West deals a hot issue, including the Uwe Barschel affair.

International Intelligence

Grachov accused of supplying Chechen arms

If you want to know who gave all those arms to the Chechens in the first place, ask the same Defense Minister Pavel Grachov who has now ordered the intervention in Chechnya, this was the message delivered by former Commonwealth of Independent States military head Marshal Yevgeny Shaposhnikov, on Russia's popular "Itogi" television show on Jan. 10. In a dramatic gesture, Shaposhnikov pulled out a numbered directive to the head of the North Caucasus Military District, written and signed by Grachov himself, ordering that 50% of the arms located in Chechnya at the time of the dissolution of the Soviet Union, be given to the Chechens.

Shaposhnikov later was interviewed by France's *Le Figaro* newspaper. Now the head of the official Russian arms-export concern, he heatedly denied that he himself had authorized such arms transfers. "I don't know Grachov's motives, but the fact is, I was completely against this." Asked by *Le Figaro* whether a successful conquest of the Chechen capital of Grozny would turn the tide in favor of President Boris Yeltsin, Grachov, and the rest of the liberal "reform" clique, Shaposhnikov responded: "Look at Napoleon. He took Moscow, but then lost the war."

South Africa seeks arms markets in Asia

South African Defense Minister Joe Modise arrived in Kuala Lumpur, Malaysia on Jan. 11 for a four-day visit, after concluding a similar four-day visit to Singapore.

Singapore is expected to help market South African-built weapons. On the list are sophisticated mine-clearing equipment and medium and light armaments. Plans are also afoot for joint land exercises and officer exchange programs. Senior Minister Lee Kuan Yew said after a visit to South Africa in December that Singapore was considering an offer for military training and test facilities there, as well as possible defense technology cooperation.

Malaysia has said South Africa's Reutech, which markets equipment from the Armaments Corp. of South Africa, is short listed to supply a backup mobile radar system for Kuala Lumpur's international airport. Armscorp loaned the system now in place after a fire last August knocked out the existing system. Malaysia is also interested in Armscorp's Rooivalk combat helicopter.

Malaysia was among a handful of countries that sent high-ranking army officers to South Africa in November to watch a live-firing display of the country's top-of-the-line weapons.

Since Malaysia normalized relations with South Africa after the election of Nelson Mandela, Prime Minister Mahathir Mohamad and Trade Minister Rafidah Aziz have visited there. South African Trade and Industry Minister Trevor Manuel came to Malaysia in October 1994, and Deputy President F.W. de Klerk made a private visit in December.

Europeans weigh end to sanctions on Iraq

France is stepping up plans to reopen trade with Iraq, since its recent decision to open up a French diplomatic representation in Baghdad within the Romanian diplomatic mission. The Association of Franco-Iraqi Economic Cooperation is setting up a joint three-day conference in Baghdad to promote trade, at the end of February. This conference will gather Iraqi and French government officials as well as state and private industries.

A delegation of Iraqi administration and military people is expected in Bonn at the end of January, to present a firsthand report on the enormous suffering caused by the embargo. Germany took over the chair of the special U.N. sanctions commission on Jan. 1.

The French economic daily *La Tribune* reported on Jan. 9 that the Israelis encouraged French openings toward Iraq. Israeli motives for this positive initiative partake of the same geopolitical "logic" which led Israel to boost Desert Storm against Iraq to start with: "Israeli leaders keep repeating this in the last months: Contacts must be reopened to Iraq in order to counter the weight of Iran whose nuclear program is considered dangerous by Jerusalem," *La Tribune* stated. On Jan. 9, the Israeli daily paper *Haaretz* wrote that Iraq may be ready to recognize Israel, and has asked for Morocco's mediation between the two countries.

U.S. Ambassador to the U.N. Madeleine Albright continues to lobby against lifting sanctions.

Likud: Rabin plotted with PLO in 1992

Yitzhak Shamir, the former prime minister for the Likud Party which lost the 1992 election in Israel, charged that recently published allegations about the actions of Israeli Labor Party official Ephraim Sneh during the Middle East peace talks in Madrid before the elections "border on treason." Supposedly Sneh, acting at Yitzhak Rabin's behest, had urged the Palestine Liberation Organization to ensure no headway was made in the talks; Sneh is now health minister in the Rabin government.

Current Likud leader Benjamin Netanyahu has requested an "inquiry commission" into the matter. Yet Shamir himself had confessed that he had no desire for the Madrid peace talks to bear any fruit.

The allegations appear in the recently published memoirs of PLO peace negotiator Abu Mazen. Both Labor and PLO officials have denied the charges, and author Abu Mazen told reporters that the narrative was inserted in the book without his knowledge, by an aide.

Did professionals kill Detlev Rohwedder?

Professionals rather than the Red Army Faction terrorists killed Detlev Rohwedder in April 1991, Franz Wauschkuhn, the former press spokesman of the Berlin Treuhand agency, wrote in a Jan. 9 *Berliner Morgenpost* review of the Rohwedder era at the agency. The Treuhand, charged with overseeing the transformation of the former communist East German state sector, officially concluded its job on Dec. 31, 1994.

"The Red Army Faction, were they the circle of assassins? Statements, speculations this night (Easter Monday, 1991) were too premature. Was it the Stasi? I remained silent. One thing was clear: It was a calculated, highly professional murder. Most of my colleagues at the [Treuhand] with whom I talked about it later on, found the RAF version not very plausible," Wauschkuhn recalls. Rohwedder opposed the free-market looting of the East; his death hurt Germany's chances for opposing the "shock therapy" solutions which have undermined the recovery of the former socialist sector.

Pro-government Tamil leader shot in Sri Lanka

Sri Lanka's peace process suffered another setback with the assassination of a pro-government Tamil politician on New Year's Eve. Murdered was Karavai Kandasamy, 56, the vice president of the leftist Democratic People's Liberation Front, at his home just outside the capital. The assailants escaped after exploding a grenade.

It is believed that the rival separatist Liberation Tigers of Tamil Eelam (Tamil Tigers) were involved in the killing, although no one claimed responsibility.

Kandasamy's slaying came amid intelligence reports that the Tamil Tigers had sent a six-member suicide squad to Colombo to assassinate President Chandrika Kumaratunga, Deputy Defense Minister Anuruddha Ratwatte, and several others.

More potshots at the House of Windsor

"Britain's Monarchy 'Doomed' " is the banner headline in the Jan. 9 London *Guardian,* continuing its propaganda offensive about Britain's evolution in the direction of some form of "republic."

The article is based on the findings of a "comprehensive opinion poll." According to the poll, "The majority of the queen's subjects believe that the royal family is doomed and will disappear in the coming century. Most young people between the ages of 15 and 25 believe they will see the end of the monarchy in their own lifetimes."

Particularly unpopular is Prince Philip. Only 8% say that the Duke of Edinburgh is "doing a good job." The *Guardian* speaks for the British establishment group which, as Lyndon LaRouche stressed, has "strategic, historical motives" for dumping the royal family. LaRouche, writing in the Oct. 28, 1994 issue of *EIR* on "The Coming Fall of the House of Windsor," proved that Prince Philip is not only the titular head of the criminal conspiracy to use "environmentalism" as the cover for perpetrating willful genocide, but has played that role fully consciously.

First U.K. troop curtailment in N. Ireland

The chief of police for the Northern Ireland Royal Ulster Constabulary (RUC) Sir Hugh Annesley announced on Jan. 12 that British troops would no longer accompany regular police force officers "during daylight hours." This is the first reduction of the blanket security presence in the province since the IRA and Loyalist cease-fires last fall. The British troops were sent into Northern Ireland in 1969 as an "alternative" to the largely Protestant police force. Sinn Fein leaders cautiously welcomed the curtailment as "a small but important step on the road to total demilitarization." Loyalist leaders affiliated with the Democratic Unionist Party denounced the move as a "crazy concession to the IRA."

Britain's Major government has ruled out a total withdrawal of its 18,000 troops "until the current truce turns into a permanent peaceful settlement," Reuters reported. The British government has so far refused to admit Sinn Fein representatives into all-party negotiations until the arms of the IRA are decommissioned—a unilateral demand that cannot be met.

Briefly

● **BEIJING** has sentenced Tong Yi, the translator for China's most famous dissident Wei Jingshen and a liaison between activists and reporters, to two and a half years of hard labor, without a trial on Dec. 22, according to the New York-based group Human Rights in China.

● **COAL MINERS** numbering more than 100,000, went on strike in northern Kazakhstan in mid-January and vowed to stay out until the government meets their demands. The government, which is implementing free-market policies, owes the workers $50 million in back pay. According to the regional miners' union leader, pit workers were being forced to sell off possessions to buy bread.

● **THE ALGERIAN** opposition meeting in Rome was greeted by the U.S. State Department on Jan. 13 as "a process that could lead to a nonviolent solution to the Algerian crisis." *EIR* covered it last week as the basis for a potential rapid solution to the Algerian civil war.

● **MONZER AL-KASSAR** went on trial in Spain on Jan. 9 for several charges of drug and arms running, passport fraud, bribery, and money-laundering. The Syrian-born international arms and drug dealer is a key collaborator of the George Bush-Oliver North secret government network.

● **BOUTROS-GHALI,** the U.N. secretary general, in his January 1995 "Blueprint for Peace" admitted that the U.N. was not in a position to field troops with a mandate to use military force, because it suffered from lack of resources.

● **THE ARAB SUMMIT** in Egypt in early January between Saudi King Fahd, Syrian President Hafez al Assad, and Egyptian President Hosni Mubarak was a first step toward reestablishing some sort of Arab unity or coordination in the Middle East peace process, say Mideast sources. The meeting is considered one of the most important developments in the last four years.

Backlash begins against Gramm-Gingrich gang

by H. Graham Lowry

The alarm has officially sounded, over the carnage expected from the gang of Conservative Revolution privateers and budget-cutthroats who sailed into Washington with the new Congress. The Treasury Department projected on Jan. 11 that more than a trillion dollars would be slashed from federal programs over the next seven years, under the combined onslaught of a balanced budget amendment and the Republican Party's "Contract with America."

Nearly half the damage would be inflicted on health care for the poor and elderly, through cuts to Medicaid and Medicare. The most devastating casualty, however, would be the elimination of the federal government's constitutional role as the promoter of the general welfare of the nation—simultaneously reducing the related functions of state government to ruin.

It was concern at the state level, in fact, which prompted the Treasury Department to let the cat out of the bag, by releasing extremely modest estimates of how much the states would lose in federal monies under the schemes of the new leadership on Capitol Hill. Democratic Gov. Howard Dean of Vermont, who chairs the National Governors Association, requested a state-by-state analysis of the impact of the proposed balanced budget amendment.

"I thought it was important for all governors to have state-specific data in hand," Governor Dean said. "A lot has been said both in favor and against the congressional leadership's proposal, but I hadn't seen any numbers. Now we have some important information that will allow us to have informed discussions on what a balanced budget amendment could mean to states."

Ammunition for the opposition

The numbers released by the Treasury's Office of Economic Policy deny, as usual, the reality of onrushing financial collapse. Yet they *reflect,* at least, the destructive consequences directly attributable to the Nazi-like scheme proposed by House Speaker Newt Gingrich (R-Ga.), Sen. Phil Gramm (R-Tex.), and their ilk. Politically, the impact of the Treasury report has blown a hole in the Gramm-Gingrich strategy of wreaking havoc under cover of darkness, by avoiding any light upon the specific targets they have in mind.

Treasury's state-by-state figures are only for fiscal year 2002, the deadline imposed in the amendment to complete the balancing of the budget. The estimates assume that spending cuts will be phased in by an equal amount over the seven-year period, and imposed across the board in proportional amounts—though exempting Social Security, defense, and debt service to the banks. Fewer cuts would be required in 2002, due to interest savings on reduced debt, so that year is actually a "best-case" example. "Nevertheless, the cuts required in 2002 would be severe," the Treasury reported to Governor Dean.

Spending cuts imposed by the budget amendment alone would slash direct grants to state governments by $71.3 billion in 2002, while other federal spending "that directly benefits state residents" would be reduced by another $176.5 billion. Those figures would jump to $97.8 billion and $242.2 billion with the extra measure of thievery in the "Contract with America," the Treasury estimates. Exemplified by the 50% cut in the capital gains tax demanded by Gingrich and his freebooters, that swindle would fatten the idle rich, gouge federal revenues, and require matching budget cutbacks. The aggregate looting of federal expenditures merely for anno Domini 2002—assuming the nation lasts that long—would weigh in at $340 billion. In that same year, cutbacks in Medicare and Medicaid projected by the Treasury would amount to nearly $162 billion of the total.

For state governments, already required by law to balance their budgets, the prospect of further cuts in federal aid leaves them no recourse but to eliminate still more funding for state programs, and enact new tax increases. Especially during the last ten years, that remedy has only worsened the cancer triggered by the "post-industrial society." Under the same rubric now employed in Washington, of "increasing efficiency" and "eliminating waste," such former industrial states as Michigan, Massachusetts, California, Illinois, and Maryland have thrown young mothers off welfare, evicted the elderly from nursing homes, abolished general assistance for the disabled poor, shut down health clinics and hospitals, and driven public school systems into bankruptcy. Virtually all of these budget-gouging measures were accompanied by repeated increases in state taxes as well. Under the hammer of a "balanced" federal budget and the "Contract with America," the states would have to further crank taxes up by an average of 17% across the board, the Treasury estimates, just to maintain the current, miserable level of vital services.

The study acknowledges that this whole picture could worsen. The Treasury report explicitly omits the possibility of "the downward macroeconomic impact of a balanced budget amendment," let alone "the extent that implementation of an amendment slows growth and reduces state revenues."

More light on the den of thieves

Despite pressure from the Clinton administration and other leading Democrats, the Gramm-Gingrich gang has generally kept mum on the question of exactly what programs are to be slashed, especially in such sensitive areas as Social Security and federal health assistance. But a number of press leaks have shed some light on the matter. The *Boston Globe* reported on Jan. 8 that shortly before Christmas, House Republican leaders were told that Medicare and Medicaid would have to be cut by $491 billion over the next seven years to balance the budget. Reuters subsequently reported that a draft document was secretly circulating among Senate Republicans, calling for an all-out assault on entitlement programs, and including a proposal to tax all entitlements as income. That bit of skullduggery would squeeze $262 billion from the pockets of retirees and others over five years. The list of targets also includes 1.3 million veterans, who would be cut off from all benefits for having "low-rated disabilities."

Another swindle, publicly embraced by Gingrich on Jan. 14, would cut Social Security payments *and* raise personal income taxes, by the sheer bookkeeping fraud of reducing the supposed rate of inflation, to one point less than the change in the consumer price index. Studies by *EIR* have repeatedly demonstrated that the official rate has continuously underestimated inflation, and the resulting cost-of-living adjustments have already reduced Social Security payments and the personal income tax exemption below where they should be. With this latest gimmick, Gingrich and the gang figure they can knock out another $150 billion from the projected deficit over five years. Staffers at the Federal Reserve, whose chairman, Alan Greenspan, first floated the scheme, estimate that $27.5 billion of that figure can be lopped off of Social Security, and another $21.4 billion scooped up in higher income taxes.

To this preliminary blueprint for thievery, add the outright piracy intended in the proposed 50% cut in capital gains taxes, and it is no surprise that a backlash is developing against the Gramm-Gingrich agenda. As *EIR* will expose at length in an immediately upcoming issue, the plan to allow a 50% deduction in net long-term capital gains from gross income is simply a scheme for the rich to steal from the poor. Only 8.5% of all taxpayers even report capital gains; nearly two-thirds of all capital gains fall into the hands of those with incomes over $200,000; and almost 80% of all capital gains are derived from speculative stock and real estate transactions! The Treasury estimates that this heist will amount to at least $183 billion in lost revenue between 1995 and 2005, according to testimony presented before the House Ways and Means Committee on Jan. 10.

As for balancing the budget, the latest deficit projection from the Congressional Budget Office is already flattening the house of cards constructed by the Gramm-Gingrich gang. Office of Management and Budget Director Alice Rivlin told a House Judiciary subcommittee on Jan. 9 that the budget would have be slashed by "$1.2 trillion without any tax cuts to get to balance in 2002, and that does boggle the imagination. It really means deep cuts in entitlement programs and things that have very wide acceptance in the Congress and in the country." Using a rules maneuver to shut down a Senate committee hearing on Jan. 17, Sen. Robert Byrd (D-W.Va.) declared from the floor, "It's the acme of arrogance for us . . . to put forward a constitutional amendment to balance the budget, without laying on the table so the American people can see, the plan by which we expect to reach that balanced budget by the year 2003." House Republicans, meanwhile, were reported backing away from their promise to specify their budget cuts, before proceeding to tax reductions centered on capital gains.

Sen. Edward Kennedy (D-Mass.) provided further evidence that resistance is stiffening on the Democratic side, during a Jan. 11 speech to the National Press Club. "The caricatures of us by the other side will be ineffective, as long as we vigorously oppose them and expose them, instead of sheepishly acquiescing in them. If Democrats run for cover, if we become pale carbon copies of the opposition and try to act like Republicans, we will lose, and deserve to lose. . . . We must not rob the people of the resource of government. It is their government, and we must make it work for them." Kennedy added that "the economy is the driving force in this country, and the most important social program."

Farrakhan calls for class action suit to force release of FBI, DOJ files

by Dennis Speed

A surprising turn of events has occurred in the sensational case of the alleged "assassination attempt" by a daughter of Malcolm X against the present-day leader of the Nation of Islam, Minister Louis Farrakhan. The Muslim leader proposed a class action suit in which those persecuted by the government—including "the LaRouche people"—would seek to gain access to the files of the Department of Justice (DOJ) and other government agencies, on the historical and current operations to defame, and perhaps silence, those deemed "controversial" and "dangerous."

Lyndon LaRouche was convicted in a federal trial on trumped-up "conspiracy" charges, and was jailed in 1989 with a 15-year sentence. Six associates were convicted with him and given sentences ranging from three to five years. He was freed on parole after serving five years. Five other of his associates are now in prison in Virginia, having been given draconian sentences ranging from 25 to 77 years for "securities violations."

International and national calls for the exoneration of LaRouche and his associates have emphasized the need to release files that would have proven LaRouche's innocence, and proven that the government at all times *knew of the fact* of LaRouche's innocence. Minister Louis Farrakhan's proposal that "the files be opened" would extend to these documents, as well as to documents revealing the harassment of African-American and other elected officials, and other travesties of justice that have become commonplace in contemporary America.

Speaking to over 4,000 supporters and members of the national press on Jan. 17, Farrakhan declared that Qubilah Shabazz, Malcolm X's daughter, was "manipulated" by "unscrupulous forces"—government informants in the employ of the Federal Bureau of Investigation. The specific informant and alleged accomplice, Michael Fitzpatrick, had been an asset of the FBI for virtually the entirety of his adult life (see box).

Minister Farrakhan's speech was reminiscent of the press conference he gave on Feb. 3, 1994 in Washington, D.C., in which he blasted the Anti-Defamation League of B'nai B'rith as a leading "slander squad" against African-American leaders. Fitzpatrick has been intimately tied to the Jewish Defense League (JDL), the "sewer rat" wetworks-squad deployed by the ADL, which serves as the cover for the more sophisticated, and efficient, hit teams of professional intelligence agencies.

Materials now being released indicate that Qubilah Shabazz attempted to *discourage* Fitzpatrick from taking action to assassinate Farrakhan.

Farrakhan's approach to the entire matter lifted the focus from the cheap, "O.J. Simpson"-style coverage of the newspapers, radio, and television—"did she or didn't she?"—to another, more important question: Why would the FBI, notorious for its support of racist harassment against African-American elected officials (for example, its "Frühmenschen"—which means "ape-men"—entrapment campaign, in which black politicians were declared to have a "genetic" propensity to steal), warn the Nation of Islam of the so-called assassination plot, just prior to its public announcement of it? Why would the FBI, notorious for having directly threatened Malcolm X in an interview at his home (which Malcolm tape-recorded) with the phrase, "it is a fact that we can eliminate people," as well as for its collaboration with the ADL in the unethical, if not outright illegal, surveillance of Martin Luther King, Jr., as well as scores of other individuals and organizations, over decades, seriously seek to protect Louis Farrakhan from harm?

As an official press release from the Nation of Islam, issued on Jan. 13, stated: "The question that must be raised by the Black community today is whether or not . . . we can reasonably believe that the U.S. Department of Justice desires to protect Minister Louis Farrakhan's life. . . . The actions of the government must be called into question; the government must be forced to release to the public all that it knows regarding this recent development."

Investigators, and the public, should also consider that the fact that this particular operation may have been "blown" in no way indicates that there is not a continuing plot of a far more serious nature—which may be as much directed against, for example, President Clinton, as against Minister Farrakhan.

Documentation

Minister Farrakhan: 'Open up all the files!'

What follows is an excerpted text of remarks made by Minister Louis Farrakhan at Mosque Maryaam in Chicago on Jan. 17. Subheads have been added.

In the name of Allah, the Beneficent, the One God, to Whom praise is forever due. We thank Him for Moses and the Torah. We thank Him for Jesus and the Gospel. We thank Him for Mohammad and Quoran. Peace be upon these worthy Servants.

If I live to be a thousand, I could never thank Him enough, for His intervention in our affairs in raising up in our midst the man who taught me what I know and gave me the example of the human being I hope to become. And that is our Divine leader and teacher, the Most Honorable Elijah Muhammad. . . .

I will begin with a few chapters of the Holy Quoran which are the closing chapters of the Quoran and they are called the "Chapters of Refuge." In the name of Allah, the Beneficent, the Merciful, "Say, I seek refuge in the Lord of the Dawn, from the evil of that which he has created. From the evil of intense darkness when it comes. And from the evil of those who cast evil suggestions in firm resolutions and from the evil of the envier when he envies.". . .

Allah God created this universe from out of darkness, yet today we live in a universe of light. This teaches us that even in our darkest hours, light, hope, and life are always present. If we do not despair in a time of darkness, if we have the right attitude, we can find the light of opportunity.

Although this is a dark hour for Mrs. Betty Shabazz and her family, for me, for the Nation of Islam, and for our people, there is a marvelous opportunity present in this darkness to cleanse a wound, and to begin healing wounds inflicted 30 years ago on the Nation of Islam and the Black community. Some of those wounds were self-inflicted, but the deepest wounds are from an outside force. . . .

There is more here than meets the eye

Things are not always as they appear. This is why God today comes to judge, because the unjust judges of this world do not judge according to Truth. They are not made to do justice. They make mischief by means of the law. The law is a tool that can be stretched for those whom the society favors, and drawn up and made narrow and tight for those whom the society dislikes. I personally am saddened over the indictment and the arrest of Qubilah Shabazz on charges that she, in a murder-for-hire scheme, made a partial payment of money to a man, a government informant who was to assassinate me.

There is so much more to this than meets the eye. My sympathy, the sympathy of my family and the Nation is with Mrs. Shabazz and her family, because in my judgment, the federal indictment handed down to Qubilah Shabazz, does not only add insult to injury, it adds one more injury to an already injured family and people.

The government of the United States has not, and does not deny its hatred for Malcolm X and his teacher the Honorable Elijah Muhammad. The government of the United States does not deny that the counterintelligence programs of the Justice Department of the United States, carried out by J. Edgar Hoover's Federal Bureau of Investigation, worked night and day to destroy the unity between Malcolm X and his teacher the Honorable Elijah Muhammad. . . .

The government of the United States does not deny the thousands of tricks used by the CIA in their attempts to destablize and destroy the crediblity of governments and leaders, to destabilize and overthrow governments, to murder world leaders. Every one of these tactics were brought to bear against Black leaders and Black organizations during the 1960s. The government of the United States does not deny that it used reporters, employed by so-called respected journals to place articles in those respected journals, designed to discredit, defame, malign, and limit the influence by falsely accusing certain Black leaders.

The government of the United States does not deny the fact that through her agent provocateurs planted in every Black organization, the government caused the spilling of blood in the Black community and even the murder of some leaders of Black organizations. The government of the United States does not deny the fact that it went so far as to plant men in some organizations to sleep with the wives of the leaders of some of these organizations to create discord within Black organizations. The government of the United States does not deny planting stories that put a "snitch jacket" on sincere persons within certain organizations to cause zealots within those organizations to kill those persons.

The government of United States does not deny that it bugged the hotels, the home, and the office of Dr. Martin Luther King, Jr., and sought to persuade the Nobel Prize Committee to deny him the Nobel Peace Prize. The government of the United States does not deny that it encouraged the Pope not to meet with Dr. King, and even sent letters to Dr. King urging him to kill himself, before they made known to the public certain so-called indiscretions of Dr. King. The same government of the United States that did all of these things created division within the Nation of Islam, and exploited that division and made the Nation of Islam and its leadership the Number #1 organization targeted for destruction.

The same forces denied Malcolm X protection after his house had been fire-bombed as a result of a hostile environment created by the government-media. They have now exposed Malcolm's daughter Qubilah, to a similarly hostile environment, which has likewise been created by the wicked

Michael Fitzpatrick, an FBI-ADL hit man

Michael Fitzpatrick, the government's key "witness" in the assassination conspiracy case against Qubilah Shabazz, is a sick person—but not nearly as sick as the FBI and Anti-Defamation League of B'nai B'rith (ADL) officials who have controlled and steered his every move for at least the past 17 years.

According to news accounts and sources personally familiar with the 34-year-old FBI undercover "snitch," Fitzpatrick is part of a stable of agent provocateurs deployed by a combine of ADL "fact finders" and FBI special agents to target groups and individuals on the FBI-ADL "enemies list." Among the other members of this "stable" are Jewish Defense Organization leader Mordechai Levy, ADL "fact finder" James Rosenberg, and Jewish underground bomber Victor Vancier.

Fitzpatrick, who also goes by the name "Michael Summers," was recruited to the FBI's Federal Witness Protection Program (FWPP) before he was old enough to drive. By 1977, Fitzpatrick was a member of the Jewish Defense League's (ADL) terrorist cell structure. The JDL was a joint effort of the ADL, the FBI, and factions of the Israeli Mossad linked to Israel's Likud party. According to Robert Friedman, the biographer of JDL founder Rabbi Meir Kahane, targets for JDL terrorism were selected by a secret committee made up of Mossad official (and later Israeli prime minister) Yitzhak Shamir, Knesset (parliament) member Geula Cohen, and Bernard Deutch, the head of the Brooklyn, New York chapter of the ADL.

Fitzpatrick was a member of one of the cells that carried out bombings of Arab and Soviet diplomatic facilities in 1977-78. Another member of the cell was Victor Vancier. When the activities of the unit began to get out of control, Fitzpatrick was "turned" as an FBI informant to testify against his fellow bombers. Vancier and one other JDL member went to jail for two years, and Fitzpatrick went into the FWPP.

Although news accounts have Fitzpatrick's ties to the FBI beginning in 1978, sources close to his case have told *EIR* that he was already working for the FBI and the ADL before he joined the JDL.

After he sent his fellow JDL members to prison, Fitzpatrick was relocated—courtesy of the FBI and the taxpayers' money—to the Midwest, where he continued for the next 17 years as an undercover spy and provocateur for the FBI. On Nov. 23, 1994, still in the FWPP, Fitzpatrick was arrested by Minneapolis police, along with his employer, Hershel Rosenberg, for running a retail crack cocaine distribution ring. Now that he is slated to be the crucial government witness against Shabazz, the drug-peddling case against him has been indefinitely postponed.—*Jeffrey Steinberg*

machinations of the same government.

The circumstances surrounding Qubilah's release are such that we fear for her safety. Therefore, we demand, that the same government responsible for planting a paid informant to entrap her, place 24-hour protection around her.

Qubillah is a child that I knew and held in my arms as a baby. I do not believe that Qubilah is an evil woman. And in the numerous reports that I have read, most people who know her do not believe that either. Qubilah is a child who loves her father; a child who grieves over the loss of her father's life—a life cut short, not by Louis Farrakhan, but by the same evil forces that throw stones and hide their hands and who, like Pontius Pilate, wash their hands of the matter, and allow just men to go to an undeserved destruction. . . .

Dr. Betty Shabazz and her six daughters . . . loved their husband and father like my wife loves her husband, and my children love their father. We share similar experiences. My older children know that I taught them from babies how to roll out of their beds if bullets came crashing through our windows at night. My older children know that in the night when I was Minister in Boston, Massachusetts, my home was fire-bombed. And I had to challenge the flames and carry all of my children to safety, and my wife in her nightgown, counting the babies as I brought them out, said, "One is missing." And it was my daughter Maria. I had to go back up in the fire to get my daughter. We know what it is to love and to be hurt because you stand for a principle for your people.

This is the power of love. Love is the most powerful force in human nature. . . . It is love that makes a mother challenge a blazing inferno to save her child. And when one is aggrieved over the loss of a loved one, and the injury is not properly redressed, the longing for justice and the pain and hurt of the loss can be maneuvered and manipulated by unscrupulous forces. And the one who is aggrieved can be led to step over the limits of what is legally correct. I believe that that is what happened with Qubilah Shabazz. She is no different than these, my children. These are not criminals. And neither is Qubilah Shabazz. . . .

Why the focus on Farrakhan?

Why has the media coverage of this event been so extensive, so relentless? The announcement of the indictment of Qubilah has gathered more headlines than the assassination attempts against Pope John Paul, former President Reagan, and the recent attacks on the White House. Why? Why? What is so special here? That a man can fly an airplane into the White House and he gets a blip and a blop, and two days later we forget about it. But for nearly a week this incident has dominated the headlines, not only in America, but, throughout the world. The Black community wants to know why is this happening and why now? Why is the focus on Farrakhan? . . .

The focus on Farrakhan is because I occupy the seat of the Honorable Elijah Muhammad as the leader of the Nation of Islam. And the ultimate aim of this government is to destroy Louis Farrakhan by planting the seeds of public contempt and hatred toward me through manipulation of the media. It is no coincidence, Brothers and Sisters, that after I spoke to nearly 15,000 Black men, early last year in New York City, that the New York Post launched a series of malicious attacks on me. . . . The Nation of Islam's attorneys brought a $4,400,000 lawsuit against Rupert Murdoch's *New York Post* in March of 1994. Now, nearly one year has passed and the New York State Supreme Court has not issued a single ruling on any of the various motions that have been brought before it by our attorneys. . . .

The *New York Post* admitted in court documents that it possessed certain files containing certain communications between it and the FBI. Our attorneys demanded these documents through the discovery process, however, the *Post* refused to release these documents, claiming that "certain documents were gathered in anticipation of litigation and are, thus, privileged."

What litigation was anticipated? It was not the suit that we filed. We believe it was a criminal proceeding, in which false witnesses were gathered, in which I was to have been charged with complicity in the murder of Malcolm X. . . .

Here on this table are all of the speeches that I have made on Malcolm X. They are available for you to look into my mind and my heart and every word that I have uttered in public about the man. . . . I was never a rival of Malcolm X. Malcolm was my teacher and my mentor and I never considered myself his rival. This is what you have made.

We should close ranks

And so, in view of all of this, what should be done? What should we do? We should close ranks.

On these things we can unite. We believe that our leaders should force the government to open all files concerning the charges against Qubilah Shabazz and all of the files relating to Malcolm X and his assassination!

Open up all the files! In fact, since all of our leaders throughout our history in this country have been subjected to governmental harassment and interference, I propose that we, as a people, *file . . . a class-action suit, charging the U.S. government with the denial of our civil rights and our human rights!* Cause the opening of *all files* with respect to the Honorable Marcus Garvey, Noble Drew-Ali, Paul Robeson, Adam Clayton-Powell, the NAACP, CORE, SNCC, SCLC, the Panther Party, Martin Luther King, Jr., Malcolm X, Elijah Muhammad, Louis Farrakhan, the LaRouche people, Scientology, and their Number One target, the Nation of Islam!

Let's all unite in a class-action suit! Put our differences on the side burner, on the back-burner, or throw [them] off the stove completely!

Let's all unite in a class action suit. A government of and by the people, such as this one, should not have the ability to hold secret from the people files and documents, relating to the murder of President Kennedy, Martin Luther King, Jr., and Malcolm X. Such secrecy protects only the guilty in and out of the government and frustrates the attainment of justice. So, open the files! Let the light shine on the dark secrets of the government of the people, which has been taken over by the forces of the wicked.

God is giving us a platform, to challenge this government for crimes perpetrated against us for 440 years. And this is why we are calling on 1 million Black men to march on Washington, D.C. this year! . . . It is time that we as Black men stand up for the hurt of our families, and the hurt of our ancestors. They died and they can't stand, but we are here today to stand up for them. I say *on to Washington*. . . .

This, this is why the government feels they must stop me now! They can envision a million Black men. What nation on this earth has a million men standing behind any leader? They can envision politically what that will mean for America and what it will mean for us.

So in my closing, whether Betty Shabazz and I ever become friends again; whether Coretta Scott-King and I ever embrace in sincere love; whether the first children of the Honorable Elijah Muhammad and I ever embrace in a bond of love and brotherhood; whether Rev. Jesse Jackson and I embrace as friends and brothers in the struggle, we are the elders in the struggle of our people for liberation. And our chapter in this history of quest of our people for freedom, justice, and equality is closing. But, we must let the children live! The children of Malcolm X. The children of Dr. King. The children of the Honorable Elijah Muhammad. The children of Rev. Jackson. The children of Louis Farrakhan. *Let the children live!*

As we close this chapter on the old, and we start a new chapter in the battle for Justice, let not the children of the warriors of this old chapter go down. Let our children set a new agenda. Let them take the good of their parents and build on that, and let them leave the garbage behind. Let them make their day brighter and newer. And give our people a new spirit and a new hope. Let us stand firm together, and stop the enemies of our rise. They ruined our yesterday. And we helped them. They are fighting to ruin our today. We must not help them. And by putting Qubilah Shabazz behind bars, they are attempting to ruin our tomorrow. So, let us say, in one voice: *never, never again!*

Federal judge says Oregon euthanasia law may violate Constitution

by Linda Everett

On Dec. 8, a U.S. District Court blocked the state of Oregon from enforcing its "assisted suicide" law, which passed as Ballot Measure 16 in the November election. Just as the law was about to take effect, U.S. District Court Judge Michael R. Hogan issued a temporary restraining order in response to a lawsuit that claimed that terminally ill patients, under the new law, face imminent and irreparable loss of their constitutional rights, including their right to life.

On Dec. 27, to the consternation of the Oregon Attorney General, who is named as a defendant in the suit, among other state officials; the Hemlock Society and the Oregon Right to Die Committee, which sponsored Ballot Measure 16; and the American Civil Liberties Union (ACLU), all of whom have either countersued or joined as intervenors with motions to dismiss it, Judge Hogan issued a 27-page preliminary injunction barring the state Attorney General, the State Board of Medical Examiners, and a state medical center from enforcing Measure 16. "This law, for the first time in the history of this country, authorizes physician-assisted suicide for the terminally ill. The law invokes profound questions of constitutional dimension. The narrow issue presented at this juncture is whether those questions justify a brief delay in the implementation of this law," Hogan said. "I find that the balancing of the important factors in this case merits a postponement of the implementation of the legislation until the constitutional concerns are fully heard and analyzed." He set Feb. 14 as a trial date.

The ruling holds promise that a scrutiny, not simply of the Oregon law, but of some of the rulings that are rocking this country from coast to coast with endorsements of the Nazi crime of euthanasia, may be forthcoming.

Because a terminally ill person allegedly "requests" suicide help, there is a general willingness on the part of the public to diminish the culpability of those involved, and to diminish the gravity of the crime itself. Instead of levying charges of murder, or genocide, the crime of providing the lethal means to exterminate a human life is known in today's parlance as "assisted suicide."

With that label, the onus of the crime is wittingly shifted away from those who provide the means of murder (physicians, hospitals, nursing home staff), away from state authorities who heretofore enforced laws and policies to prevent murder, and away from the established infrastructure that encourage euthanasia (economic and industrial collapse, health insurer-controlled health care delivery systems, malthusian bioethics), onto the individual who "wants" to die. Such a philosophy fits neatly within the New Age holistic health care of "personal responsibility," and is a dangerous corollary of the "Conservative Revolution" ideology of Newt Gingrich and Alvin Toffler that there should be less government obligation in safeguarding the welfare of the nation.

There is no 'right' to die

Assisted suicide advocates argue the individual's "right" to be murdered as "constitutional" (as do the Oregon Right to Die Committee and the ACLU in their briefs in this case); would forfeit the individual's constitutionally guaranteed protections of the inalienable right to life; and would dismiss any federal, state, or local government responsibility to provide basic economic infrastructure, including health care delivery systems, to ensure that right to life.

In this case, defendant State of Oregon argues that the patients and doctors who challenge the suicide law, "claim that because they have a constitutional interest in life, they are constitutionally *entitled* to state protection against conduct—assisting in a suicide—that impairs that right" (emphasis in original). The euthanasia lobby claims that Measure 16 has all the adequate safeguards needed to protect patients. But the state argues, "[T]he Constitution does not require a state to protect an individual from possible—or even likely—injury or death by another, let alone harm to an individual who knowingly and willingly chooses death."

The plaintiffs (two physicians, terminally ill patients, a residential care facility, and the operators of a residential care facility) said, "Measure 16 violates the Equal Protection and Due Process Clause of the Fourteenth Amendment, the First Amendment rights of freedom to exercise religion and to associate, and the Americans with Disabilities Act." Judge Hogan said that these claims would be examined at trial.

Patients face 'imminent injury'

Judge Hogan established that the terminally ill patients and physician plaintiffs have "standing" in "invoking federal court jurisdiction," a position bitterly contested by the state and the intervenors. The terminally ill plaintiffs oppose suicide, but claim "that they may, at some future time, request physician-assisted suicide due to undue influence caused by judgment-impairing depression, or other inappropriate influence," Hogan said. They meet the minimum constitutional mandate for standing, since the patients face an "imminent" injury under Measure 16. "If a terminal patient does not have standing, who does?" Hogan asked.

Judge Hogan also found that the physician plaintiffs, oncologist Gary Lee and William Petty, whose specialty is gynecologic oncology, have met several criteria for third-party standing. Lee and Petty state, for the purposes of standing only, that if their patients commit suicide, they face direct financial impact on their practices and "injury in fact" if Measure 16 goes into effect. The judge found that "the physicians demonstrated sufficiently close relationship with their patients," the majority of whom are cancer patients expected to die shortly.

Dr. Lee's affidavit states that "some of his patients fall into such severe depression that they become dysfunctional. Several have approached him requesting assistance in ending their lives." He said almost no one chooses suicide if his or her physical, emotional, social, and spiritual needs are met, but that he does not have specialized training in identifying debilitating depression or suicidal tendencies. Both doctors believe that "[s]ignificant numbers of their patients will seek physician assistance in ending their lives prematurely due to severe depression or undue influence, if Measure 16 takes effect." Judge Hogan found that they have standing "to protect constitutional rights of their patients."

Measure 16 allegedly does not obligate any health care provider to participate in providing suicide, but the facility opposing suicide cannot discipline or deny privileges to doctors who perform it. Doctors or facilities opposed to suicide must refer patients to hospitals or doctors who will provide it. But, this makes doctors and residential care providers who oppose suicide, *complicit* in carrying out a suicide, and violates their First Amendment rights to free exercise of religion and to free association. Judge Hogan found "serious questions regarding an infringement on religious beliefs," and that "the loss of First Amendment freedoms even for minimal periods of time may constitute an irreparable injury."

Equal protection under the law

Plaintiffs allege that Measure 16 denies the terminally ill equal protection under the law. Under Oregon law, a person may be convicted of manslaughter for intentionally causing or aiding another to commit suicide, and provides commitment proceedings for anyone with a mental disorder who is "dangerous to self." But Measure 16 creates exceptions, such that terminally ill patients are not covered by that law, and prohibits criminal liability for anyone who aids in a suicide under its terms. The Equal Protection Clause of the Fourteenth Amendment states that "[n]o State shall . . . deprive any person of life, liberty, or property, without due process of law."

The judge raises several due process questions: If Measure 16 deprives those who have the disability or a terminal illness of protections of their right to live, because it does not guarantee that the choice to end life will be both informed and voluntary, "does Measure 16 deprive a person of consitutional rights? Before a state can allow an individual to waive a federal constitutional right, must it also ensure the waiver is *voluntary and informed?*" Judge Hogan cited research showing that "95% of persons who wish to commit suicide are suffering from depression or emotional disorders that could be eliminated with support, therapy, or medication." Another study showed that 94% of suicides had a psychiatric illness at death; 25% had seen a doctor within 24 hours of their death, 41% within one week of death, and 70% within one month of death. The doctors failed to diagnose depression.

Hogan found "interesting" the claim that under Measure 16, disabled terminally ill individuals are unlawfully deprived of protections afforded other citizens, violating the Americans with Disabilities Act.

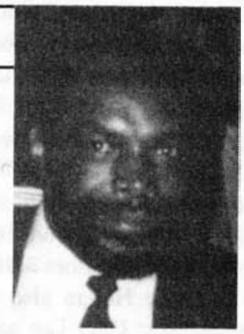
Irreparable harm

In his complaint, Dr. Lee says that depression is generally undertreated, and alleges that depression and the debilitating effects of terminal illness make his patients "highly susceptible to the suggestion that their lives are not worth living." Contrary to the state's claim that such patients will "suffer absolutely no harm whatsoever," Hogan found that the state and the euthanasia lobby fail to address the issue of persons pressured into suicide by depression or undue influence. In fact, the state claims that the right to "protections afforded by criminal homicide and civil commitment law—is not a fundamental constitutional right."

Judge Hogan wrote, "Death is overwhelmingly final and not subject to reversal, mitigation, or correction. Although death may be viewed as a release from suffering, it is nevertheless the end of life. . . . Death constitutes an irreparable injury and I find that the possibility of unnecessary death by assisted suicide has been sufficiently raised to satisfy the irreparable harm request for a preliminary injunction." Citing *Cruzan* (1990), he said, "An erroneous decision to withdraw life-sustaining treatment . . . is not susceptible of correction."

Judge Hogan concluded his decision: "Although the status quo will be regarded as a hardship for some terminally ill patients who want the option of physician-assisted suicide to be immediately available, the public interest in protecting vulnerable citizens from the irreparable harm of death is greater. Surely, the first assisted suicide law in this country deserves a considered, thoughtful constitutional analysis."

Interview: Jim Evans



The privatizers are pirates coming to steal from taxpayers

Representative Evans serves in the Mississippi state legislature from District 70, covering mid-town and downtown Jackson. He is a member of the Public Health Care Committee, chairman of the Black Caucus Health Care Committee, and serves as secretary-treasurer of the Delta Energy and Economic District, a seven-state consortium dealing with health care, infrastructure, and economic development in the states bordering the Mississippi River. He was interviewed on Jan. 9 by Suzanne Rose.

EIR: I understand there's going to be a big fight over privatization next week in the Mississippi legislature. Could you tell us what is going to happen?
Evans: I hope what's going to happen is that we are going to win, that the taxpayers of Mississippi are not going to be ripped off any further by these privateers, who happen to be almost straight-out bandits raiding the treasury. What we have attempted to do in Mississippi is to make sure that we get a dollar's worth for the dollar that we spend. We've had a test case where a private company, Maximus, has collected child support for six months in two counties. We found out that for every dollar that they spend, the state gets back about 28¢ in collections, so it's not a good deal. What I hope prevails in the legislature is that we go back to equipping our state workers and state employees and paying them a decent wage with decent equipment, so that we can collect every dollar that can be collected for child support in this state.

EIR: What form is the fight taking?
Evans: The governor and others are running commercials as if they are campaigning for office, to privatize statewide so that this firm out of Virginia can collect about $90 million a year from the taxpayers of Mississippi, while collecting about $30 million in child support funds. They are going to take the majority of the money and stuff it in their pockets. What is happening in Mississippi is that they are not just trying to privatize child support collections, but they are trying to privatize all services, so that the citizen won't be able to come and demand from the government their services, but these private contractors will be in charge. They'll be in the business of making a profit and not solving problems.

EIR: What kind of a company is Maximus?
Evans: My information says that they have been kicked out of a lot of states. If you check California, Texas, and Tennessee, they can probably tell you that they are not a very dependable company, because they are no longer there. The biggest problem I have with them is that they are not needed in Mississippi. We have a dedicated workforce who are increasing child support collections every day. They are understaffed and underfunded, but if they were funded properly, we could get this job done by paying decent wages.

EIR: Is there a bill before the legislature to privatize all health and human services?
Evans: They want to privatize economic assistance workers. You know, we had this slave labor bill, passed and approved by the people in Washington [the Department of Health and Human Services signed a waiver the previous week—ed.] where they can take people's food stamps and AFDC [Aid to Families with Dependent Children] benefits and transfer them into dollars and give them to an employer who pays the worker $1 an hour plus food stamp benefits. They would be forced to work on these jobs and forced to endure sexual harassment, and other kinds of harassment, because if they quit these jobs, they can't go back on food stamps or back on AFDC. We are going to be sending a lot of our people into slave labor-type camps.

EIR: This is a pilot project in how many counties?
Evans: It's in seven counties.

EIR: Is there a move to expand this statewide?
Evans: Statewide. The governor is trying to get the apparatus going in these seven. There's nobody in the agency who understands how to do it, but as soon as they figure out how they're going to implement it in these counties, they will come right back for statewide implementation. It's the same with Maximus. The contract they signed with Maximus for the child support, even though they are only doing it in two counties, is a statewide contract.

EIR: Can you tell me anything about the employment situation? What kinds of jobs are they talking about?

Evans: They are talking about bringing back the sweatshops. Basically what they have done is, they've read this book by Chuck Colson [*Making America Work*] about the conditions in the Soviet Union slave labor camps, and they're trying to implement these camps in Mississippi. The jobs that they are going to offer these ladies are jobs in garment sweatshops and chicken plants, and other places where the working conditions are deplorable, a situation where you wouldn't send your enemy.

EIR: Where you have to force people to work because after several months they get so crippled up?
Evans: There are no safe working conditions and no one is even concerned about working conditions, they just want to get the chickens plucked.

EIR: Is there anything coming up in the legislature immediately around prison privatization?
Evans: We had a special session a few months ago that authorized 2,000 beds to be privatized in a contract with Wackenhut; we all know these prisons are strictly slave labor camps and, in most cases, they are run by what I would call the white supremacists, the Nazi element in our society, and we've jumped into it in a big way with the 2,000 beds. Hopefully, this will be the end of it, because it's a dangerous thing when society is condoning slave labor camps, and it is absolutely certain that these prison camps are going to end up as slave labor camps.

EIR: Is the prison budget being expanded?
Evans: The budget includes $43 million to fund private prisons and $68 million to build 5,000 new beds in the next few months.

EIR: Can you tell me anything about the notorious Mississippi Sovereignty Commission, which is reported to have kept files on 50,000 citizens? I understand you are part of a court suit to open their files.
Evans: The Sovereignty Commission is the link between the Nazi element and the Ku Klux Klan element in our society, which tries to subvert every law for decency passed in the state of Mississippi. It functions as a state-funded agency, but one charged by any means necessary, to deny black citizens the right to participate in their government. That's the purpose of it. An ex-federal judge who was a senator at that time, who later became Governor Colman, stated the purpose of it in open debate in the House right after *Brown v. Board of Education* [which desegregated public education]. They formed the commission to guarantee that blacks made no gain in Mississippi, and they slashed and burned and murdered and destroyed black folks (and kept files on them), and they continue to do so.

EIR: They spied on people?
Evans: Absolutely.

EIR: Is this grouping connected in any way to the apparatus which is bringing in privatization?
Evans: They are connected to the apparatus that is bringing the privateers into town. They are not directly connected to the companies themselves. The hate-mongers who go out after this type of thing are the same people who keep the Sovereignty Commission alive.

EIR: Was the new head of the prison system, Mr. Ingram, at one time the head of the FBI's Cointelpro?
Evans: His position is higher than the prison system. He is the Commissioner of Public Safety for the State of Mississippi. . . . He is very close with the people in Wackenhut. They are both retired FBI officers, Mr. Ingram and Mr. Wackenhut, and they served together.

EIR: What is the relationship of Sen. Trent Lott, Haley Barbour, and the Oliver North apparatus to these moves to privatize?
Evans: You've got to realize who the top people in this country are: Haley Barbour is chairman of the [Republican] Party, Mrs. Spivey is head of research and education for the party, Trent Lott is the number-two man in the Senate; they are all Mississippians. They have campaigned openly for privatization. They introduced Governor Fordyce to most of the folks who are coming in. They are not only pushing for it in Mississippi, but they are pushing for it nationwide. Quite frankly, we view it as taking back all the gains that were fought and died for in the 1960s—it is to take back what our Bill of Rights was set up to protect. We see these people in Mississippi as the greatest internal threat to liberty.

EIR: Are you sponsoring two bills to stop privatization?
Evans: We've put them in a cage and stopped the spread of it like cancer in the special session. And we're going out now to try to root it out. Privatization as practiced by these Republicans today is simply the art of taking taxpayers assets and giving them away to their friends as favors. That's what it is. They are pirates. They are bandits. We are presenting to the taxpayers of Mississippi a factually stated case to show that these people are not coming in to better the state of Mississippi, but to steal. We're going to stop it altogether. We feel it is the role of government to provide for the general welfare of the population. That is the job of government, and we are going to make sure the government does what it is charged to do.

I hope your readers understand that the capital of Mississippi, Jackson, is the front line right now, even though we know that it is spreading all over the nation. Those who are fighting for privatization nationwide are determined that Virginia and Mississippi be the shining stars that they are going to point to, as they try to continue it nationwide. We are going to do what we can to stop it here.

Congressional Closeup by William Jones

Withdraw from NAFTA, legislators demand

A bill that would require the United States to withdraw from the North American Free Trade Agreement was introduced into the House on Jan. 11 by Pete DeFazio (D-Ore.) and Marcy Kaptur (D-Ohio), with the support of a bipartisan group of 17 legislators. The bill, the "NAFTA Withdrawal Act of 1995," would activate the withdrawal clause of the NAFTA agreement, which went into effect one year ago. Kaptur was one of the most outspoken opponents of NAFTA.

The collapse of the Mexican financial markets has destroyed some of the illusions about the new "free trade zones." DeFazio said, "If a new $40 billion bailout is proposed [for Mexico], I predict our support [for the withdrawal bill] will grow exponentially. . . . The Clinton administration is desperately trying to cover up the abject failure of this trade agreement by pouring billions of dollars into Mexican banks and fudging the trade numbers . . . but there's also a conspiracy of silence on the part of the Republican leadership in Congress, who provided the votes needed to pass this turkey." The NAFTA agreement was a project of the Bush administration.

Commenting on the legislation, Kaptur said, "Those financial interests that chose to invest in Mexico—the multinationals, the big investment houses like Goldman Sachs, and big banks like Citibank—should eat their own losses and not run to the U.S. taxpayer to be bailed out." The goal of NAFTA "was never designed to sell goods to Mexicans," Kaptur said. "It was always designed to get cheap labor in Mexico to ship the goods here. Now those Mexican workers will have total incomes in United States dollars of $800 or $900 a year. So if they really save hard, they might be able to buy a pair of running shoes at the end of the year from United States manufacturers based in Mexico, but not likely."

Salmon recovery too costly, senators say

All eight senators from the four Northwest states wrote a letter to President Clinton on Dec. 20, expressing their "concern over Bonneville Power Authority's ability to fund additional salmon recovery costs," according to the January BPA newsletter. Environmentalists have forced the largely hydro-based federal utility to implement various plans to protect the salmon, including the diversion of water from dams and the building of fish runs and hatcheries. The Northwest Power Planning Council estimates that BPA will lose $57 million this year from lost power sales and additional electricity purchases from other utilities. It will also cost BPA $25 million for research and rebuilding, and $95 million for dam modifications.

The senators wrote the President that preliminary estimates for BPA's salmon recovery plan put the cost between $300 million and $1 billion each year, depending upon water levels and power prices. The senators said that these plans should be "science-based," and that they may hold hearings to address the administration's response.

The Natural Resources Defense Council, the Sierra Club, and American Rivers released a report in early December disputing the salmon recovery cost-estimates by the BPA and the Army Corps of Engineers. The BPA charges that the environmentalists' report makes "unrealistic assumptions about energy sales" and the utility's ability to pay for programs without substantial rate increases.

Fight against budget cuts will be bipartisan

During the first hearing of the new Congress on Jan. 6, members on both sides of the aisle on the Science Committee effectively broke with the format of the Conservative Revolution and promised to initiate a fight to prevent cuts in federal science and technology programs.

Committee Chairman Robert Walker (R-Pa.) said in his opening statement that "nonagenarian Americans have seen in the span of their lifetimes the Wright brothers fly, the arrival of the jet age, and the Moon landing; the invention of radio, television, digital technology; and countless other advances in the fields of medicine, electronics, and transportation. We should accept as ours the goal of making the next century just as exciting for the children born in 2001 as those born in 1901." Walker said he was made vice chairman of the Budget Committee in order to protect science programs.

Walker was seconded by former committee chairman, now ranking minority member George Brown (D-Calif.). Brown stated in his opening remarks that the accomplishments of the past "were rooted in a fundamental commitment by the federal government to promote and foster scientific research and development. The future will be no different."

Byrd blocks fast action on unfunded mandates

Sen. Robert Byrd (D-W.Va.) threw the first monkey wrench into the attempt by Senate Majority Leader Bob Dole (R-Kan.) to rush legislation through the Senate which would lift the burden of unfunded mandates from state governments. These are programs that the federal government mandates the states to carry out, but for which it provides no funding.

The legislation had whizzed through two Senate committees when Byrd demanded to see the committee reports on the legislation. In their haste to put the legislation through, neither committee had prepared reports as required. "What's the hurry? . . . Just because the House has rules that it can ram things through doesn't mean the Senate has to roll over and play dead. . . . Let's slow down," he advised his colleagues.

Republicans in both houses are rushing to pass the unfunded mandates bill in order to begin work on a balanced budget amendment. Governors and mayors want the unfunded mandates lifted because states will be saddled with further losses in federal funding under a balanced budget regimen.

When the Senate Budget Committee finally produced a hastily written committee report, Byrd, who had been speaking for hours, insisted that he had to have time to read it, meanwhile going on at length about his dog Billy. Byrd said he was not filibustering, but simply insisting that the Senate follow proper procedure. "Senators will know when I filibuster," Byrd warned.

Kennedy introduces minimum wage hike

Sen. Edward Kennedy (D-Mass.), the ranking minority member on the Senate Labor Committee, on Jan. 11 introduced a bill (S. 203) to increase the minimum wage.

The bill would increase the U.S. minimum wage from its current $4.25 per hour to $5.05 in August, and then to $5.75 per hour six months later.

Speaking on behalf of the Clinton administration in favor of such an increase, Labor Secretary Robert Reich cited recent studies said to show that a higher minimum wage does not adversely affect the availability of jobs.

House Majority Leader Dick Armey (R-Tex.) has called for the minimum wage law to be abolished.

Even GOPers worried about 'new federalism'

It was obvious in the House Ways and Means Committee hearing on welfare reform on Jan. 13, that even Republicans are shying away from shifting some important federal powers to the state governments, despite what the ideologues of the Conservative Revolution have been telling them.

One of the chief proponents of this proposal, Michigan's Gov. John Engler (R), was one of the witnesses at the hearing held by Clay Shaw (R-Fla.), chairman of the Ways and Means Subcommittee on Human Resources. Shaw promised Engler that the Congress "was about to give you the mother of all waivers."

Shaw was referring to the proposal in the "Contract with America" which calls for combining the funding of all welfare programs and giving the states the money as "block grants," leaving them to decide how to spend it. Engler is in favor of block grants, but only if there are no restrictions on how they could be spent.

Delaware Gov. Thomas Carper (D) said that he was far from confident that the states could manage the grants. Carper asked what would happen "when unemployment rates hit 10% and we have no way to help people," if the grant funds had already been spent.

Sander Levin (D-Mich.) expressed concern that such no-strings funding would represent "the total devolution of authority to the states."

However, it is precisely this "total devolution" that the ideologues of the Conservative Revolution are attempting to bring about. Witness after witness showed how block grants would create grave inequalities in the welfare system, and, in some cases, would effectively reduce the amount of money individual states would receive. In the face of the mounting evidence that this "mother of all waivers" may cause considerable damage, even Shaw said that he felt they might have to settle for some "hybrid" system that would shift to block grants, but without eliminating entirely entitlements for specific programs.

Stenholm offers balanced budget compromise

Rep. Charles W. Stenholm (D-Tex.) has introduced a balanced budget amendment which requires only a simple majority in both houses of Congress to win passage for a tax increase. It still requires a three-fifths majority to approve a budget in any given year which is not balanced, i.e., for outlays to exceed total receipts.

The "Contract with America" version of the balanced budget amendment by House Speaker Newt Gingrich (R-Ga.) may not even get enough votes from Republicans to pass. That amendment makes it nearly impossible to raise taxes, by requiring a three-fifths majority on any tax hike. Stenholm claims that his version has the backing of 65 Democrats, and it has been praised by House Majority Leader Dick Armey (R-Tex.).

National News

New Age kooks consulted on balanced budget talks

House Budget Committee Chairman John R. Kasich (R-Ohio) enlisted the aid of Doug Hall, a New Age consultant who manages a team of "trained-brain" consultants, to run a recent Hill seminar to explore innovative approaches to the balanced budget amendment, according to the *Washington Post*. Hall brought 15 "consultants" to the House Budget Committee office on Jan. 9 to lead a dozen committee staffers and consultants in a Nerf gun fight and other "creativity-inducing" games, such as "Mind Dumpster," "Pass the Buck," and "666." Among the ideas the group came up with, according to the *Post* account: a national bingo lottery to pay for Medicare, renting out Air Force One for bachelor parties, and moving the U.S. capital every four years like the Olympic Games, with cities bidding on the privilege.

The Hill event was such an embarrassment that not one Democrat on the committee showed up, and at the last minute, Kasich himself was a no-show, claiming that he had pressing business to attend to.

Mensa newsletter spouts eugenics propaganda

A furor has erupted over the publication of eugenics articles in the newsletter of a California chapter of the Mensa Society, a group whose members claim to have very high IQs.

Jason Brent, an attorney and member of the Los Angeles chapter contended that Hitler's greatest crime was in giving the idea of a master race a bad name, since his "actions prevent a rational discussion of the creation of the master race." Brent, who is Jewish, contended that his remarks were "half in jest. . . . I was trying to start a debate within Mensa about the need for population control and how we allocate scarce resources." Brent continued, "I'm ready to take my lumps, but when you're considering the survival of the species, the fact that someone killed 6 million or 20 million people pales by comparison."

Jon Evans, another Mensa member, wrote that "the vast majority [of homeless people] are too stupid, too lazy, too crazy, or too anti-social to earn a living." He added, "Most of the homeless should be done away with, like abandoned kittens." He commented on the infirm that "a piece of meat in the shape of a man but without a mind is not a human being."

Nikki Frey, editor of the newsletter, told the *Los Angeles Times:* "I would not print anything I thought was truly harmful or offensive. . . . I didn't think it was harmful; I don't think it's even that offensive: Nobody wants to have a deformed child."

Va. legislature gives governor cold shoulder

Virginia Gov. George Allen (R) delivered his annual State of the Commonwealth Address to empty chambers on Jan. 11, after the Democrats, with their bare majority, adjourned the Senate one day earlier, ostensibly over a rules fight. Allen, a darling of the "Conservative Revolution," delivered his "vision" of a "leaner" (and meaner) Virginia government from his conference room—detailing $400 million in wide-ranging service cuts in 1995, increased spending to build prisons, and $2.1 billion in tax cuts over five years. He repeatedly made populist appeals to taxpayers as "the forgotten Virginians." He said that he is guided by the "fundamental philosophy" that "people know better how to spend their hard-earned money than does government."

In the weeks leading up to the annual speech, which normally opens the General Assembly, over 1,000 Virginians, of all political persuasions, had lined up at hearings across the state to denounce both Allen's proposed budget cuts and tax cuts. This unprecedented outpouring of opposition clearly buoyed the Democratic leadership, which has generally let Allen's offensive roll over them since November.

Even the generally mild Democratic Lt. Gov. Donald S. Beyer, Jr. took the gloves off in his televised response to Allen's address—the first time a lieutenant governor has delivered a public response. Much of what the governor has proposed, Beyer began, "I stand against. . . . We must be lean, but not cruel. . . . Are we now promising a rose garden, but also congested roads, poor health, eroding schools and jobs that have fled the state?"

President blasts tire firm for strike-breaking

President Clinton attacked tire-maker Bridgestone-Firestone on Jan. 13 for "flagrantly turning its back" on U.S. labor tradition by hiring replacement workers, and urged the company to return to the bargaining table with its striking workers. The company, based in Nashville, has hired 2,300 replacement workers to operate its three plants, and says its plants would be operating seven days a week by mid-January.

"When companies replace their workers under these circumstances," said Clinton, "they sow seeds of distrust and resentment which can extend far beyond their company, undermining labor-management relations across the land." He said he has long supported legislation to prevent companies from hiring permanent replacements for strikers, and that Bridgestone-Firestone's actions show "exactly why this protection is necessary." The company is owned by the Bridgestone group of Japan, where this form of strike-breaking has long been illegal.

Clinton downplays flap over war commemorations

Pressed by the media at his joint press conference with Japanese Prime Minister Tomiichi Murayama, as to whether he will invite Japan to a reenactment of Japan's World War II surrender 50 years ago, President Clinton today downplayed confrontation. "There will be a number of commemorations throughout the Pacific, but we have not yet decided precisely what I will do and how we will do it," he said.

"I know there's a debate going on in Japan about this whole issue now and how it should be handled," he said. "I can only say that the last three leaders of Japan have expressed in the sincerest terms their regret about the war. We have had a remarkable relationship, a partnership and a growing friendship with Japan, and I would hope that we could mark this year by saying this is something that civilized nations can never permit to occur again. But looking toward that future and what our responsibilities and what our opportunities are in the future by working together to change the world for the better, that is what I think we should do, and I hope that all these areas of cooperation we're mentioning today, will be at the forefront of what people in the world think about the United States and Japan."

Prison overcrowding, privatization protested

The sheriffs of Portsmouth and Virginia Beach, Virginia filed suit in Circuit Court on Jan. 11 to force Virginia's Department of Corrections to comply with state law that requires felons sentenced to three years or more to be moved from a local jail to a state prison within two months of being convicted. Since the administration of Gov. George Allen (R) abolished parole, and Virginia has the lowest parole rate in the nation for those still eligible under the old law, jails in the state have suffered massive overcrowding.

The Virginia Beach jail, certified to house 563 inmates, now holds 913. The Portsmouth jail, certified for 197, now holds 518. Of those, 84 are state felons.

On Jan. 9, hundreds of Wytheville residents took to the streets to protest a plan by Corrections Corp. of America to build a "private" medium-security prison in their town; CCA is hoping to make a profit from Allen's new prison-building regime. More than 100 people forced the Wythe County Board of Supervisors to move its meeting to a larger place. More than 300 filled a high school auditorium to hound the Town Council later that night. Countering arguments that the private prison would mean jobs for the area, Chuck Lacy, a former member of the Virginia General Assembly, said: "This is not what we are looking for to answer our economic development problems. We don't need more \$6.50 jobs. That's just \$13,000 per year."

Species Act endangering astronomical observatory

Two astronomers and one environmental scientist from the University of Arizona have written a hard-hitting attack on the spectrum of environmentalist and "indigenous" operations against Arizona's Mt. Graham International Observatory, in the Nov. 17 issue of *Nature*. The article was entitled "Endangered Telescopes or Species?" by Bruce Walsh, Roger Angel, and Peter Strittmatter. The science press has been editorially silent over the years-long battle to build and install telescopes at the observatory. As recently as Aug. 11, *Nature* had carried "neutral" coverage of the latest legal effort launched by the well-heeled green organizations.

The authors argued that the Mt. Graham experience "raises serious questions as to the appropriate application of the Endangered Species Act," stating, "The costs to the Endangered Species Act, up for reapproval next year, and to the credibility of environmental organizations, might be even higher" than the cost of fending off scurrilous attacks.

The Apache Survival Coalition responded with a letter to the editor in the Dec. 15 issue, objecting that the article "ignores the views of Native Americans about our Mother Earth." But *Nature*'s editorial rebutted those assertions. The coalition does not represent the Apaches, it said, whereas the representative Apache Tribal Council has taken a neutral stand. It reports that the coalition "has been sending hate mail to all and sundry" to block the observatory, and a recent coalition flyer went so far as to claim "that the building of the telescope is comparable with the Holocaust."

Briefly

● **THE ARMY WAR** College's Dr. Stephen Pelletiere concluded that economic development is the first priority in any plan to establish lasting peace in the Middle East, in a recent white paper analyzing the problems in the Gaza Strip. He cited very high unemployment among Palestinian youths, and stressed that unless that problem is addressed with economic development, no political solution in the region is viable.

● **THE PHILADELPHIA** ***Inquirer*** editorialized against efforts by the family of Martin Luther King, Jr. to oust the National Park Service from operation of the King Center in Atlanta on Jan. 15, the anniversary of King's birth. The Park Service has been attempting to cut the family out of all deliberations on landmarks and memorials in memory of the civil rights martyr.

● **BOB DOLE**, the Senate Majority Leader, announced the creation of a presidential exploratory committee on Jan. 13. "I haven't officially thrown my hat in the ring, but you could say that this is a first step. I will formally announce my decision in late March or early-April." Dole has topped the field in early polls of Republican contenders.

● **WARREN CHRISTOPHER** and Al Gore met recently to discuss merging the Agency for International Development, U.S. Information Agency, and Arms Control and Disarmament Agency under the control of the State Department. At present, the agencies take guidance from the secretary of state, but are funded separately from the department.

● **MADELEINE ALBRIGHT,** the U.N. ambassador, began gearing up to pressure the U.N. Security Council to continue the murderous economic embargo against Iraq on Jan. 10, displaying satellite photographs of Iraqi equipment which she alleged were stolen Kuwaiti property, two days before the council is scheduled to conduct a 60-day review of the sanctions.

Editorial

Credibility, not plausibility

When Abraham Lincoln made his famous comment, "You can fool some of the people all of the time; and all of the people some of the time; but you cannot fool all of the people all of the time," he could well have had Phil Gramm and Newt Gingrich in mind. Their so-called Contract with America is a confidence trick which is simply playing on the gullibility of an American public, which has been trained to accept soundbytes as reasoned political discourse.

Abraham Lincoln's aphorism was humorous but nonetheless profound. LaRouche's earliest forecasts did not receive wide acceptance, but there are fewer and fewer people who will be able to deny his credibility, as the enormity of the present crisis unfolds, and the plausible solutions of a Gingrich are exposed as frauds.

We are in the midst of an out-of-control economic crisis typified by the Orange County debacle on the one hand and the slide of the Mexican peso on the other. The logic of the Conservative Revolution comes down to killing off the old people and sending the children out to work—in the tradition of the unlamented British Empire of the 19th century. For most decent people such a solution to our economic woes is not morally tolerable; but even the morally debased who are willing to tolerate such nostrums—elevated to a political system in this century under the name of fascism—will find out soon enough that they simply will not work.

There is no way that a balanced budget amendment can staunch the present financial hemorrhage. Selling off our pensions, schools, and public services at bargain basement prices will enrich a few speculators and cheat the rest of us, but it will not rescue public finances. And it will not be long before this will become all too obvious to those deluded Americans who voted the budget-cutters into office.

In 1956, Lyndon LaRouche did a forecasting study, in which he said that the U.S. economy was about to plunge into deep recession. This went against the accepted wisdom. He was ridiculed by those business associates to whom it was addressed at the time, but eight months later his forecast was borne out. It was in the aftermath of this recession that Richard Nixon lost the election to John F. Kennedy.

Unfortunately, the pro-growth policies of the Kennedy administration typified by the Apollo program, proved to be an episode in an otherwise disastrous trend-line toward the economic stagnation later to be dignified by the title of a post-industrial society.

By 1971, with Richard Nixon now in office, a full-blown monetary crisis had emerged. On Aug. 15, Nixon declared that the dollar would no longer be convertible to gold. This was the beginning of the end of the Bretton Woods System, and the world economic system has been shredding ever since.

These forecasts by LaRouche were made first in the course of his professional life as an economic consultant, and then as part of the broader political responsibilities which he assumed during the 1970s and thereafter, but they stemmed from a discovery which he had made when still quite a young man—in the period from 1948 to 1952.

That discovery was of the provable relationship between demographic growth and the principle of creative discovery. This relates the individual subjective act of making a fundamental scientific hypothesis, to the application of that discovery in the emergence of new technologies. These technologies allow man to harness greater amounts of energy per capita, and to direct the energy in more concentrated form to a work area. From this follows the capability of a society to support the growth of the population, both numerically and culturally.

LaRouche's discovery was a restatement of the fundamental Christian precept, which identifies that which is both uniquely human and at the same time God-like in man, as his ability to model himself upon the Creator.

Being plausible in the manner of the proverbial used-car salesman—in the manner of a Newt Gingrich—is not to be credible. It is not a matter of who can garner the most votes or win on the opinion polls. To be credible is to be worthy of being believed; in other words, to be truthful.